

Minnesota Natural Resources

Department: Environmental
Assessment Files Regarding State
Parks

Copyright Notice:

This material may be protected by copyright law (U.S. Code, Title 17). Researchers are liable for any infringement. For more information, visit www.mnhs.org/copyright.

STATE OF MINNESOTA Office Memorandum

DEPARTMENT Natural Resources

Trust Fund Land Policy Report Work Group (Kim Hennings, Ron Harnack, Tom Danger,

Jim Brooks, Frank Knoke, Pat Lang)

DATE: Dec. 7, 1982

FROM: Tom Balcom

Environmental Review Coordinator

TB.

PHONE: 6-4796

SUBJECT: Review of First Portions of Report

Attached for your information and review, as per Steve Thorne's memo of October 26, are drafts of the first sections of the Trust Fund Land Policy Report. The sections include the Preface, Introduction, and Chapters I & II. Although Chapter III was also to be completed by this time, it is still being prepared and should be available for review shortly.

Please review these sections for accuracy and completeness, keeping in mind the sections yet to come, as detailed in the outline provided previously. We will schedule a meeting of the work group in a few weeks, after Chapter III is completed and distributed for your review, to discuss the initial sections and the preparation of the remaining chapters.

TWB:pje 5457D

attachment

Steve Thorne cc: Vonny Hagen Gene Gere Rod Sando George Orning

RECEIVED

DEC 9 1982

Dept. of Natural Paramas Div. of Parks & Recusation

POLICY CONCERNING THE MANAGEMENT OF MINNESOTA'S SCHOOL TRUST LANDS

FIRST DRAFT

Preface



Minnesota State Government is one of the largest landowners in the United States. The State Legislature has provided substantial direction for the management of state-owned lands. Obviously, the interpretation of this corpus of statutes into programmatic policy and procedures is a less than exact science. This is a primary reason for identifying a unified and stable managing body -- in this case, the Department of Natural Resources (DNR) -- as responsible for establishing, implementing, and reporting on state public land policy.

In recent years, a series of reports has been issued which either totally or in part addresses the management of Minnesota's school trust lands. These include the "Report of the Natural Resources Committee to the Constitutional Study Commission" (August 1972), the Legislative Auditor's "Review of the DNR's Operation and Management of the Permanent School Fund" (June 1981), the Legislative Auditor's "Evaluation of State Timber Sales" (February 1982), and the Legislative Auditor's "Evaluation of Minnesota Mineral Leasing" (June 1982).

These earlier reports, which were not produced by the DNR, have on the whole resulted in some serious inaccuracies and a variety of administrative interpretations of law by non-administering reviewers. These have resulted in misunderstandings of DNR policy. Therefore, the present report will serve a valuable role in clarifying and providing a comprehensive review of the Department's policy for school trust land management.

Introduction

The Minnesota Department of Natural Resources (DNR) is currently responsible for managing approximately 2.5 million acres of federally-granted land for the benefit of the state's elementary and secondary public schools. (In addition, the state has retained the mineral rights to almost one million acres of school trust land which were sold). These lands were granted to the state in the nineteenth century for a variety of reasons: In 1857, the Organic Act granted to the state sections 16 and 36 of each township for the support of the state's public schools, which eventually resulted in the conveyance of approximately 2.9 million acres; in 1860, 4.8 million acres were granted for drainage of swampland; and, in 1866 Minnesota received .5 million acres for internal improvements. (These total acreages were not all immediately granted; rather, they represent the final granted acreages, transferred after several years of land grant administration and land selection).

The school, swampland, and internal improvement grants comprise the DNR-administered trust lands. Currently, approximately 62% (1,560,000 acres) of the school trust land is from the swampland grant, 38% (954,000 acres) is from the school grant, and less than 1% (7,000 acres) is from the internal improvements grant. Although originally placed in separate trusts, eventually these lands were combined into the school trust. (All of these lands will hereafter be referred to as "school trust lands").

Collectively, these trust lands can be defined as lands granted to the state by the federal government and held or administered by the state in trust for the public. The lands may only be used or disposed of according to specific procedures or directions defined in law. The proceeds from the use or sale of these lands must be used for specific public purposes which are consistent with the fiduciary responsibility. The DNR has been managing the trust land since 1931, when the Department of Conservation, the agency's predecessor, was established.

Revenues from the use or sale of the school trust lands are placed in a nonexpendable account called the Permanent School Fund (PSF). The State Board of Investment (SBI) is responsible for investing these funds "to secure the maximum return thereon consistent with the maintenance of the perpetuity of the fund." The State Board of Investment consists of the governor, state auditor, treasurer, secretary of state, and attorney general, as well as a professional support staff. The PSF was created in 1862, when the first trust land was sold, although the fund had been set up by the Enabling Act in 1857. As of June 30, 1982, the PSF principal (equity) was \$332,869,000, and an average (over the past five fiscal years) of \$19,619,200 has been distributed annually to school districts in proportion to the number of children aged 5-21 within that district.

It should be made clear at the outset that there is a statutory division of responsibilities, as stated in the Minnesota Constitution and statutes, between managing the <u>trust lands</u> for the public benefit, and managing the <u>trust fund</u> (PSF) for maximum revenue. The DNR is entrusted with the former, and SBI with the latter.

Although all public land states were granted land for schools in the nineteenth century, the State of Minnesota has been one of the most provident managers of trust lands, recognizing at the time of the grants that a "perpetual and inviolate" fund would offer the greatest long-term return for the state's schools. An early policy shift from quick sale to greater retention of these lands has increased the long-term return as land values rose. Many other states disposed of their lands quickly or spent the revenues directly, and therefore have little or no economic return today.

The issue of trust land management in Minnesota is an exceedingly complex one, for several reasons. These include the existence of numerous federal land grants (not originally for schools) which were eventually consolidated with the school trust lands; other, non-trust federal grants; and several state constitutional amendments and statutes which modified or gave additional direction to the management of the school trust lands. In many ways, the sole purpose of managing these lands for economic return to the fund has been moderated by other public benefits, such as the creation of recreational opportunities. This expansion of goals and priorities established by the State Legislature has been overlooked by earlier reviews.

In order to understand school trust policy, it is necessary to provide a brief description of the various types of lands which comprise the school trust, as well as a distinction between these, other federal grants, and other public lands. Since the number of land types and their names can be confusing, this will be presented in outline form for quick referencing.

Land Grants Presently in the School Trust

School Lands: All public land states were allowed a grant of federal land for the purpose of aid to public elementary and secondary schools. If these tracts were occupied or reserved prior to transfer of title to the state, "indemnity" or "in lieu" selections could be made instead. Approximately 2.9 million acres was conveyed by this grant.

Swamp Lands: In 1860, 4.8 million acres of "swamp or over-flowed lands, which may be, or are found unfit for cultivation"⁵, were granted to Minnesota, the proceeds of which were to be set aside for the construction of levees and drains. This was by far the largest of the federal land grants to the state. A Minnesota constitutional amendment was adopted in 1881 which provided that swamp lands be sold in the same manner as school lands and that proceeds go into a permanent swamp land fund.⁶

Internal Improvement Lands: In 1866, Minnesota recognized that an 1841 federal statute granting land for internal improvements applied to the state. Ultimately 496,482 acres were conveyed. Over 99% of these lands were sold by the turn of the century, and in 1974, proceeds from remaining lands were dedicated to the PSF.

State-Administered Trust Land not in the School Trust

University Lands: In 1851 and 1857, Minnesota received land grants for the support of a state university. From the 92,160 acres

originally granted, 26,050 acres remain.

Agricultural College Lands: An 1862 act granted lands to the states in proportion to their congressional representation. For Minnesota, this resulted in a grant of 94,439 acres. By 1912 all of the agricultural college lands had been sold. The proceeds from these lands will remain perpetually in the University Fund.

Non-Trust Grants of Federal Land

Railroad Grants: Total railroad grants in Minnesota amounted to 12.8 million acres, or over 25% of the state's land.

Salt Spring Lands: 24,444 acres of salt spring lands were granted by the federal government in 1871. At the present time, only 5,571 acres remain.

Public Building Lands: In the 1857 Enabling Act, ten sections (6400 acres) were granted for the purpose of public buildings. These lands have all been sold.

Hopefully, this introduction has served to establish the basic structure and definitions of the state's school trust lands. 8

Understanding the current management policy for these lands requires a knowledge of these basic distinctions, laws, and responsibilities. The following report will discuss the DNR's school trust management policies in detail, including written directions from law, administrative

responsibilities, management of lands in DNR units, disposition and use, and financial management. Preceding this, however, is an in-depth look at the history of these lands and a profile of their current acreage, geographic distribution, and revenues.

ENDNOTES -- INTRODUCTION

University trust lands are not managed by the DNR and their trust is not related to the school trust.

2Constitution of the State of Minnesota, Article XI, Section 8.

3Figures quoted over the phone by Tom Casey, Department of Finance, on 18 November 1982, and were rounded to the nearest thousand by Finance. Total market value of the fund as of September 30, 1982 was \$270,823,298, and total cost of the fund was \$314,529,954, as quoted by Mike Schmidt, State Board of Investment.

⁴Constitution of the State of Minnesota, Article XI, Section 8.

512 Statutes 3, Act of March 12, 1860, cited in Minnesota Lands, S.T. Dana, J.H. Alison, and R.N. Cunningham (Washington D.C., American Forestry Association, 1960), pages 98 and 395.

6Constitution of the State of Minnesota, Article VIII, Section 2.

⁷Figures are current as of 01 December 1982, cited by Rod Rowe, Bureau of Land, DNR.

8The introduction has focused on the differences between the state's various trust fund lands and other grant lands; therefore, descriptions of other state-owned lands, such as the 1.6 million acres of Conservation Area tax-forfeit land, 2.9 million acres of county-administered tax forfeit land, and the 1 million acres of DNR-acquired land (purchase, gift, etc.) have been excluded as being beyond the scope of the report.

I. Historical Overview

A. Trust Fund Land Grants

Lands which were ... "received by grant from the federal government impressed with a trust that receipts from them be used permanently for certian specified purposes ..." are known as trust fund lands. (Dana 1960 p. 190).

Minnesota was established as a territory with the passage of the Organic Act of 1849. Under this act, Congress reserved sections 16 and 36 of each township in the territory for the support of public (elementary and secondary) schools (State of MN 1980 p. xi).

Congress enacted Minnesota's enabling measure on February 26, 1857, which authorized the State Government. Sections 16 and 36 or "indemnity" selections (substitute lands of equal value) were offered as public school land grants to the State Government (Gates 1968 p. 307).

In the process of achieving statehood, the voters of Minnesota adopted the state's Constitution on October 13, 1857 (State of MN 1980, p. 1xi). The transfer of school lands to the state, as granted under the enabling act, was finalized by an act of May 11, 1858, when

Minnesota was accepted as a state (Gates 1968 p. 308). The Constitution provided for the administration of the school lands and established a permanent school fund. The original wording of the Constitution is as follows:

"The proceeds of such lands as are or hereafter may be granted by the United States for the use of schools within each township in this State, shall remain a perpetual school fund to the State, and not more than one-third of said lands may be sold in any two years, one-third in five years, and one-third in ten years; but the lands of the greatest valuation shall be sold first, provided that no portion of said lands shall be sold otherwise than at public sale. The principal of all funds arising from sales or other disposition of lands, or other property, granted ... shall forever be preserved inviolate and undiminished ..." (Gates 1968 p. 307)

The school land grant to Minnesota under the 1857 Enabling Act totalled 2,995,628 acres (Hallgren 1967 p. 139).

In addition to the school trust land grant, Minnesota's Enabling Act granted 72 sections for a state university. This grant was linked to a permanent fund which had already been established for a state university in 1851 (Orfield 1915 p. 245). In 1870, Congress determined that the 1851 and 1857 actions were indeed separate, and therefore Minnesota was entitled to a double land grant totalling four townships for support of a state university.

The Morrill Act of 1862 granted land to the states in proportion to their representation in Congress. For Minnesota, this was expected to result in the conveyance of 120,000 acres, which the legislature dedicated in 1863 to the establishment of a college of agriculture and mechanic arts. Although this land was at first given for support of the agricultural college at Glencoe, which had been established in 1858, the emergence of the University of Minnesota caused the

legislature to move these lands and their proceeds under the control of the University of Minnesota and the University Fund in 1868. The state actually received 94,439 acres from this grant, which have been called "agricultural college" lands.

An internal improvement fund was also designated by the Enabling Act under the following conditions:

"... that five per centum of the net proceeds of sales of all public lands lying within said state, which shall be sold by Congress after the admission of the said State into the Union, after deducting all the expenses incident to the same shall be paid to said State, for the purpose of making public roads and internal improvements, as the Legislature shall direct." (Orfield 1915 p. 150)

In 1866, Minnesota acquired 496,482 acres of land for internal improvements (roads, bridges, and similar developments), previously made available under an 1841 federal statute (Dana 1960 pp. 144-145). An 1872 amendment to the Constitution restricted the sale of these lands to the same procedure as school land sales and directed the revenues to the internal improvement fund (Hallgren 1967 p. 143). After a long struggle, these lands were allowed to be sold in 1881 to liquidate railroad bonds.

In 1860, provisions of the swamp land grant of 1850, which granted land for the construction of levees and drains, were extended to Minnesota. During the next 50 years, claims for over 4.7 million acres of land were approved and patented to the state under this act (Orfield 1915 p. 151). The state eventually granted 62% of this land to railroad companies to help finance the construction of railroads, and the state legislature diverted these lands for other purposes as well. A constitutional amendment was passed in 1882 which stipulated

that remaining swamp lands were to be sold in the same manner as school lands with receipts deposited into a permanent swamp land fund. One-half of the income from the fund would be apportioned to the school fund; the other half would be split among specified charitable and educational institutions (Hallgren 1968 p. 145).

At the turn of the century, the state maintained four permanent trust funds. The principals of the school, swamp, and university funds were made inviolate; use of the internal improvement fund required approval of the electors of the state (Hallgren 1967 p. 143).

B. Non-Trust Federal Land Grants

Minnesota also received several federal land grants which were free from any trust.

Between 1854-1865, the federal government granted 8 million acres to the state for railroad construction. The state granted these lands, as well as 2.9 million acres from the swamp land grant, to various railroad companies. In addition, the federal government granted 1.9 million acres directly to the Northern Pacific Railroad.

Minnesota's Enabling Act granted to the state up to twelve salt springs with six adjoining sections each (Orfield 1915 p. 149).

24,444 acres of salt spring lands were granted by the federal government in 1871. In 1873, these lands were given to the University of Minnesota, but even by that time, the vast majority of the lands had been disposed of.

Also in the Enabling Act, ten sections (6400 acres) were granted for the purpose of public buildings. These lands have all been sold.

Additional land grants were made to the state for parks and forests.

C. Summary of Federal Land Grants

Following is a summary of Minnesota's early federal grants:

Purpose of Grant	Acres ²	Year ⁴
Railroad	8,315,318	1854
Swamp 1	4,777,636	1860
Schools	2,995,628	1857
Internal Improvements	496,482	1866
Agriculture College	94,439	1862
University	91,527	1857 ³
Salt Springs	46,038	1857
Park and Forests	26,957	1892/1904
Public Buildings	6,397	1857
TOTAL	16,850,429	

3 (Orfield 1915 p. 151)

² State Records (Dana 1960 p. 111)

⁴ Indicates year or years in which the initial grant was made; many of the actual claims extended beyond the year of the initial grant (Dana 1960 pp. 92-99)

In total, the State of Minnesota received nearly 17 million acres, or about one-third of the acreage of the state, in grants from the federal government (Orfield 1915 p. 152).

D. Early Land Administration

Initial state administration of the granted lands in Minnesota has been described as being patterned after federal policy: "a definite intention on the part of Congress to get as much of the land as possible into private ownership as fast as it could be surveyed" (Dana 1960 p. 205). The state's initial policy toward the granted lands ... "was to dispose of them for cash" (Dana 1960 p. 132). This policy translated largely into agressive land sales, with the proceeds directed into the respective trust funds or general fund. The most valuable lands were sold first, as per Constitutional order. These were the agricultural lands located in the southern half of the state. The northern half of the state, largely forested and containing numerous bogs, was less desirable to the early settlers of the state.

Accounts of land administration during the late 1800's indicate numerous acts of fraud, bribery, and neglect in both the public and private sectors. The state's school lands in the north were particularly susceptible to timber thefts:

"The situation finally became so malodorous that in 1893 the legislature appointed a Pine Land Investigating Committee 'to inquire into any and all frauds that have been committed at any time in any part of the state by

which the public lands owned by the state ... have been despoiled of their timber by open robbery and under-valuation of their value, or by any other means'" (Dana 1960 pp. 134-135).

Loss to the public school fund due to ... "lack of necessary knowledge, judgement, or integrity" ... in legislation and administration was estimated to be in the millions of dollars (Orfield 1915 p. 147).

Other land grants were also linked to early land scandals. By 1881, the state's entire railroad acreage and much of its swamp lands had been granted directly to private railroad companies, the latter in open violation of the trust (Dana 1960 pp. 148-149). Unfortunately, the state was slow to adopt and enforce legal procedures for the disposal of the lands. By the time such procedures went into effect, much of the original acreage had been disposed of without adequate compensation to the state (Orfield 1915 p. 147).

School lands were "the first federal grants to receive attention" by the state (Dana 1960 p. 133). Two acts were passed in 1861 which dealt with procedures for the sales of school lands. A minimum price of \$7 per acre was set for school lands under one act (Orfield 1915 pp. 154-155).

Although both of the 1861 acts were repealed, they were replaced by a March, 1862 act which "established a State Land Office headed by the State Auditor, who was made ex officio the State Land Commissioner The Land Commissioner was given general charge and supervision of state lands, with authority to sell, lease, and dispose of them as provided by law" (Dana 1960 pp. 133-134). Under the 1862 act, the

minimum price of school land was reduced to \$5 per acre (Orfield 1915 p. 160). The school lands were first placed on the market in 1861. The first state lands sales were held in 1862, when 38,247 acres of school lands were sold for \$242,867, an average price of \$6.35/acre. These sales initiated the principal of the permanent school fund (although the fund had actually been established in 1857) (Orfield 1915 p. 166).

During the first fifty years of statehood, the state legislature "aimed at getting land - all land - into private ownership as the best means of promoting 'public interest'" (Dana 1960 p. 206). State lands were sold at prices which ranged from an average of \$5.71 - \$19.62 per acre (Orfield 1915 pp. 166-167). Aside from the grants to the railroads, the salt spring lands, and a portion of the university lands, the state lands were disposed of at public sales conducted by the Land Commissioner (Orfield 1915 p. 159).

The following chart summarizes the early land administration policies adopted by the state:

Purpose of Federal Grant	Original Acres5	Acres remaining-1912 ¹	% Disposed by 1912	Average price per acre 7
Railroad	8,315,328	none	100	
Swamp land	4,777,636	1,612,183 4	67	6.40 €
Schools .	2,995,628	838,953	71	6.33
Internal				
Improvement	496,482	5,504	99	5.71
Agriculture	7 X.			
College	94,439	none	100	5.92
University	91,524	19,304	79	6.32
Salt Springs	46,038	38,395 2	162	
Parks & Forests	26,957	26,957	none 3	
Public Building	6,397	none	100	19.62
TOTAL	16,850,429	< 2	2,475,944	

Approximate acreages; from (Orfield 1915 pp. 166-167) unless otherwise noted; slight variances between state and federal record sources. 2 7,643 acres were granted to a private salt company during the years 1870-72; the remaining acreage was transferred to the University in 1873. (Dana 1960 pp. 93-94) These grants resulted in the transfer of lands for Itasca State Park established in 1891, and for forest reserve established in 1905, now Burntside State Forest. A condition of these grants was that the land must remain in use for the purpose of parks or forests, or title would revert back to the U.S. Government (Dana 1960 p. 99). Additional state claims were pending for indemnity selections. (Orfield 1915 p. 167) 5 (Dana 1960 pp. 92-99) Applies only to 283,567 acres (6%) which were sold; other swamp land was granted, primarily to railroad companies (2,858,594 acres). (Orfield 1915 p. 167) (Orfield 1915 pp. 166-167) It is evident that by 1912 the state had made considerable progress toward achieving the tranfer of land from public to private ownership. Of its nearly seventeen million acres of granted lands, the state had retained title to only approximately two and a half million acres. Most of the remaining state land was swamp and school trust lands located in the northern half of the state. Shifts in Land Administration E. Toward the turn of the century, doubts began to rise regarding the soundness of the widespread policy to dispose of public lands: ... "Depletion of forest and range land, increasing soil erosion, and more irregular stream flow raised serious question as to the ability of the country's supposedly inexhaustible natural resources to meet the future needs of a rapidly mounting population" (Dana 1960 p. 206). -1G -

An awareness slowly emerged that public, rather than private, land ownership best enabled management for the public interest, "the greatest good to the greatest number in the long run" (Dana 1960 p. 207). This concept recognizes that the land base which supplies the country's natural resources is limited, and that long-term management is needed to conserve resources for future generations.

First on a national and then on a state level, Minnesota's public land policy changed from one of "disposal to one of reservation (and later acquisition)" (Dana 1960 p. 206). This shift in policy is not directly stated in Minnesota legislation. No laws were passed specifically to decrease the sale of state lands. The statutes regarding state land sales have changed very little over the years since the State Land Commissioner received authority to sell state land in 1862. Current statutes now read:

"The Commissioner shall hold frequent sales of school and other State Lands ... (as) provided by law;.. at this sale the commissioner shall sell such lands as he considers for the public interest." (MN Stat. 92.12, Subd. 4).

What has changed, and is reflected by the legislature, is the concept of the best public interest. The need for public land stewardship to conserve and manage the state's natural resources is recognized by many legislative acts, beginning with a mineral reservation act, passed in 1889 (Dana 1960 p. 206). This act permitted the State Auditor to reserve the state's mineral rights on land sales in three iron-rich counties of northern Minnesota. A subsequent act was passed in 1901 which made mandatory the reservation af all mineral rights on all state land sales and exchanges (Orfield 1915 p. 222).

Itasca State Park, established by the state legislature in 1891, has been cited as ... "the earliest reservation of a specific tract for a specific purpose" in Minnesota (Dana 1960 p. 151). In 1892, the U.S. Congress granted all federal lands within the tract to the state for park purposes; this grant was accepted by the Minnesota legislature in 1893 (Dana 1960 p. 152). The state received two other grants for parks and forest purposes. In 1904, 20,000 acres was granted for a forest reserve, which is now Burntside State Forest. A wooded half-acre island was also granted to the state in 1905 (Dana 1960 p. 99).

A 1914 amendment to the Minnesota Constitution authorized the establishment and management of state forests on school and other state lands (Dana 1960 p. 420). Legislation in 1925 created a Department of Conservation under the supervision of the Commissioners of Forestry and Fire Prevention, Game and Fish, and Lands and Timber. (Dana 1960 p. 422) In 1931 the legislature designated a large area of school and other public lands as state forests, and reorganized the Department of Conservation, (now the Department of Natural Resources) which assumed administrative responsibilities (Dana 1960 pp. 155 & 424).

During the late 1800's and early 1900's, the policy of selling as much state land as possible was stabilized and eventually reversed to a general practice of reservation, conservation, management and acquisition. The following table shows the total acres in each trust land category in the years 1912, 1958 and 1982:

Trust Land Category	Acres 1912 1	Acres 1958 2	Acres 1982 3
Swamp Land	1,612,183	1,607,433	1,557,516
School School	838,953	995,842	953,243
Internal Improvement	5,504	7,077	6,677
University	19,304	25,715	26,050
TOTAL	2,475,944	2,636,067	2,543,486

Much of the increase in acreage indicated between 1912 and 1958 was due to land sales contract defaults during the Depression. Aside from this unexpected gain, the state's trust land acreage has remained relatively constant since 1912.

⁽Orfield 1915 pp. 166-167)
12,000 acres were pending for indemnity selection. (Dana 1960 p. 191)
Minnesota Bureau of Land Records, June 30, 1982. 2

II. Existing School Trust Lands

A. What remains of the original grants

The school trust lands currently total 2,520,303 acres, out of the more than eight million acres of lands originally given to the state under various grants which eventually were consolidated into the present school trust lands. Sixty-two percent of the present school trust lands were originally part of the swampland grants, 38 percent were granted as school trust lands, and less than one percent were part of the internal improvement grants. In addition to the above totals, nearly one million acres of mineral rights have been retained on school trust land on which the surface has been sold.

Because the best agricultural land is found in the southern and western parts of the state, these areas were settled first. In many southeastern counties this occurred before the trust lands were granted to the state, and as a result of these lands being pre-empted by homesteaders, "indemnity" trust lands were granted to the state on public domain land which remained in the northern counties. Trust lands that the state did receive in the more fertile agricultural areas were quickly sold since it was the state's early policy to sell off trust lands as rapidly as possible. Also, the state constitution required that the most valuable lands be sold first. Regarding the swampland grants, the majority of the lands were in the northern half of the state where vast boglands exist. The result is that the remaining school trust lands are predominantly located in northern Minnesota.

The quality of the present school trust lands reflects the "high-grade" disposal policies of the past, being in large part either poorly drained bogland or having shallow and rocky soil, but in either case being predominantly of low agricultural value. However, recent trends in resource use and consumption have greatly changed the way the value of the remaining lands must be viewed. What was once considered worthless swampland is now being recognized as both a valuable ecological asset having many positive resource values and as an energy resource, because of its large peat reserves. Likewise, the continued exploration of the state's mineral resources has identified significantly greater opportunities for mineral development than was known to be the case previously with the limited information then available. It is estimated by the Division of Minerals for example, that one-quarter of the state's peat resource are on school trust lands, and one-third of the mineral rights managed by DNR are on school trust lands.

B. Geographic Distribution

More than 82 percent of the present school trust lands are in the seven northeastern Minnesota counties which comprise the Arrowhead Region. The remainder are more scattered, mostly in the adjoining regions of northern Minnesota. There are only small amounts of trust land in the southern portion the state. For example, in the 16 counties south of the Minnesota River there are only 58 acres of trust lands. Likewise, the lands where the state owns only the

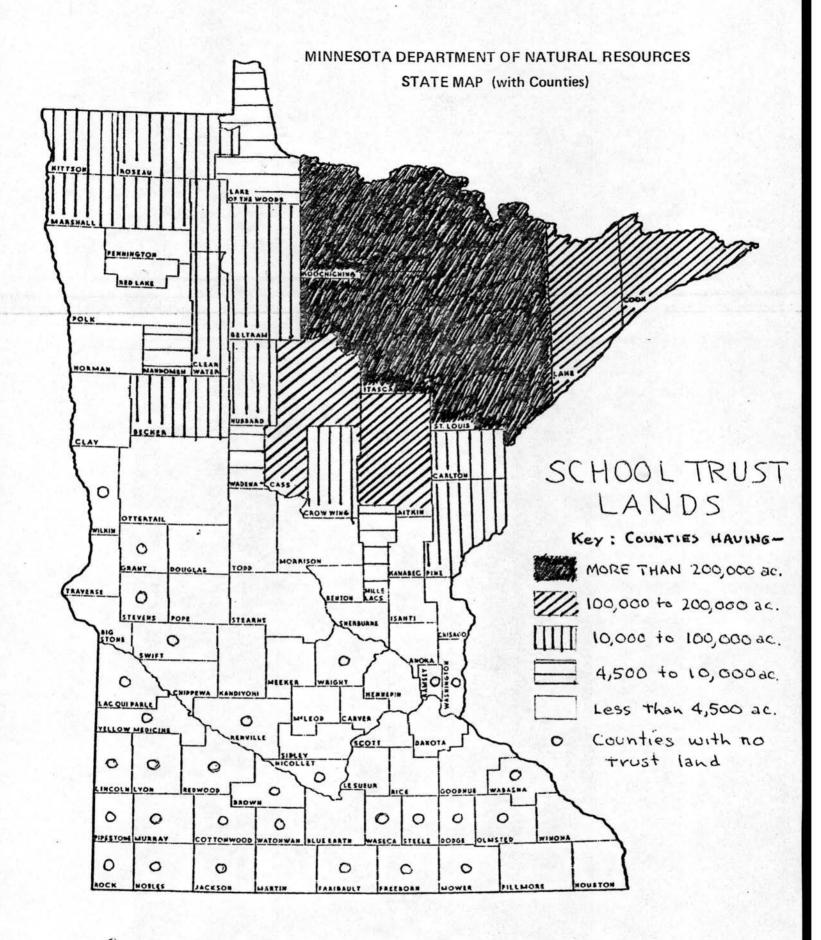
mineral rights are concentrated in the northern half of the state. However, the mineral rights-only ownership pattern is more scattered than the surface ownership for school trust lands. (These are lands on which the School Trust originally owned both the surface and the mineral rights, but at some time in the past the state sold the surface rights to the land, while retaining the mineral rights.)

TABLE ___

SCHOOL TRUST LAND ACREAGE RANKED BY COUNTY FOR COUNTIES WITH MORE THAN 10,000 ACRES

Ran	k County	Acres	% of Total T.F. Land in State*	Cumulative Total %
1	Koochiching	854,652	33.4	33.4
2	St. Louis	483,018	19.2	52.6
3	Itasca	293,218	11.6	64.2
4	Lake	159,381	6.3	70.6
5	Cass	140,304	5.6	76.1
6	Aitkin	138,702	5.5	81.6
7	Cook	121,325	4.8	86.4
8	Beltrami	60,726	2.4	88.88
9	Roseau	50,375	2.0	90.8
10	Hubbard	29,433	1.2	92.0
11	Crow Wing	23,666	0.9	92.9
12	Pine	23,007	0.9	93.8
13	Clearwater	22,708	0.9	94.7
14	Marshall	22,403	0.9	95.6
15	Carlton	19,542	0.8	96.4
16	Becker	15,932	0.6	97.0
17	Kittson	14,763	0.6	97.6
	All other counties	47,538	1.9	100%
	State total	2,520,303		

^{*}This column does not total to 100% due to rounding



Source: DNR 1982 LAND OWNERSHIP RECORDS

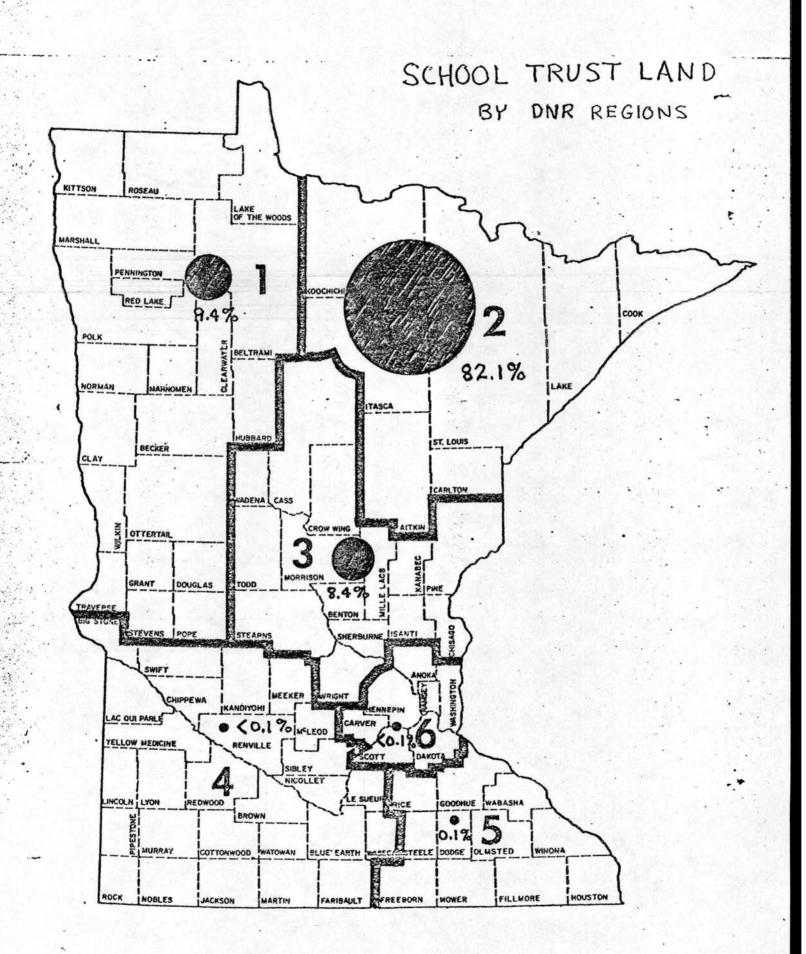
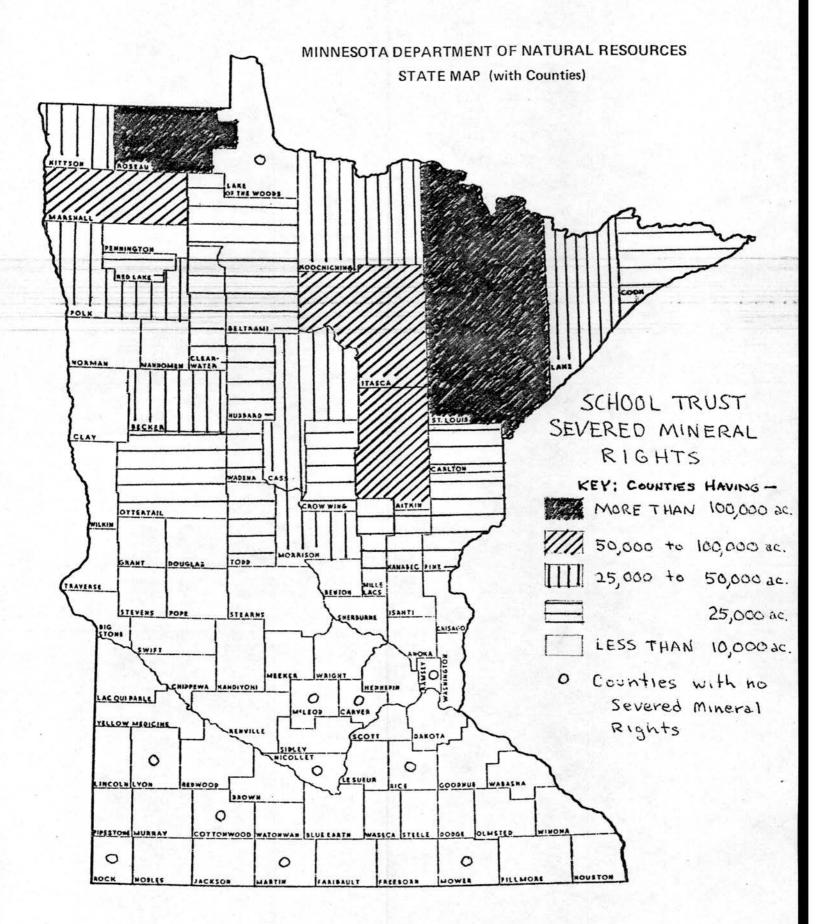


Table __

SCHOOL TRUST SEVERED MINERAL RIGHTS OWNERSHIP RANKED BY COUNTY FOR COUNTIES WITH MORE THAN 10,000 ACRES

Rank	County	Acres	% of Total T.F.Severed Mineral Rights*	Cumulative Tot. %
1	Roseau	164,882	16.6	16.6
	St. Louis	107,352	10.8	27.4
3	Aitkin	66,593	6.7	34.1
4	Itasca	64,480	6.5	40.6
2 3 4 5 6 7 8	Marshall	61,723	6.2	46.8
6	Cass	41,041	4.1	50.9
7	Kittson	39,734	4.0	54.9
8	Lake	35,840	3.6	58.5
9	Koochiching	35,329	3.6	62.1
10	Becker	29,378	3.0	65.1
11	Polk	28,535	2.9	68.0
12	Morrison	27,125	2.7	70.7
13	Ottertail	24,459	2.5	73.2
14	Pine	22,626	2.3	75.5
15	Beltrami	20,294	2.1	77.6
16	Wadena	18,937	1.9	79.5
17	Crow Wing	18,363	1.9	81.4
18	Carlton	18,125	1.8	83.2
19	Cook	15,217	1.5	84.7
20	Mille Lacs	14,782	1.5	86.2
21	Clearwater	14,428	1.5	87.7
22	Hubbard	13,735	1.4	89.1
23	Todd	12,901	1.3	90.4
24	Kanabec	11,690	1.2	92.7
25	Red Lake	11,283	1.1	92.7
	All other counties	70,610	7.1	100 %
	State total	989,462		

^{*}This column does not total to 100% due to rounding



Source: DNR 1982 LAND OWNERSHIP RECORDS

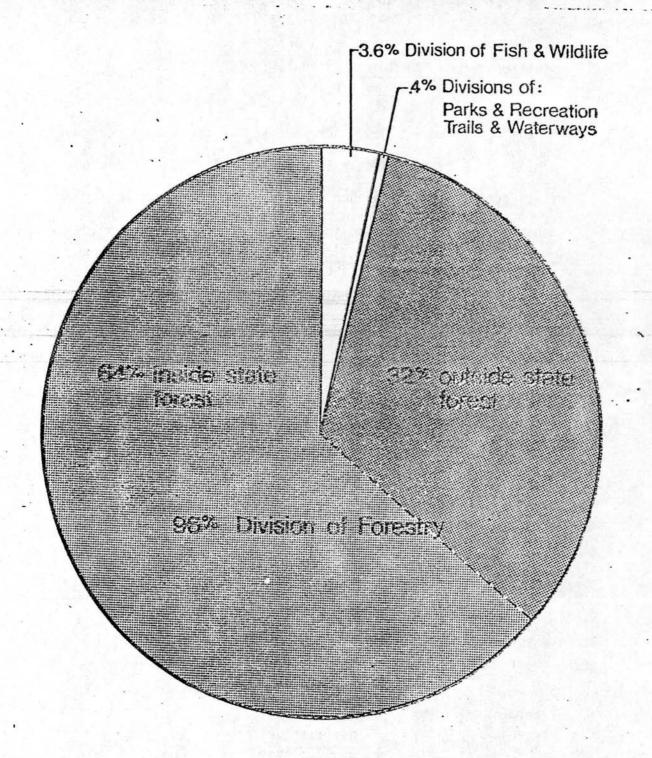
C. Trust Lands and DNR Management Units

Of the more than 2,520,000 acres of school trust lands currently administered by DNR, nearly 64 percent are within the boundaries of state forests, while another 32 percent are not part of any management unit but are administered as forest lands outside of state forests. Less than five percent of the trust lands are in other types of units, with most being part of wildlife management units (4%). Less than half of one percent are in state parks and other recreational units (see table below).

DNR Administration of Trust Lands

% of Unit

	/0 UI UIIIC		
	Acres School	% of Tot.	Class which
<u>Unit</u>	Trust Land	S.T. Land	is S.T. Land
State Forests	1,604,783	63%	53%
Wildlife Management Areas	91,312	4	18
State Parks	9,717		5
Wild & Scenic Rivers	645		NA
State Waysides	640	1	NA
State Trails	238		NA
Public Access	204		NA
Total in DNR Units	1,707,592	68	
Total not in Units	812,711	32	
Total Surface	2,520,303	100%	
Total Mineral			
Rights Only	989,462		



Total School, Indemnity School, Swamp and Internal Improvement Land as of July, 1982/2,517,436 Acres

TRUST FUND LAND: WHO MANAGES IT?

D. Revenues

Revenues from the school trust lands are derived from the sale of the land, sale of the renewable and non-renewable resources on the land, or the lease of its surface or subsurface rights. The two largest revenue sources have always been timber sales and mineral leases, contributing over 85% of the accumulated value of the Permanent School Fund. Over the past several years, the revenues have averaged \$1,850,000 for timber sales and \$1,700,000 for mineral leases. (Detailed revenue data is found in Chapter 4).

PERAR?

Timber sales and mineral leases are the areas where the department has been most aggressive in generating revenues from state lands. The level of investment needed for economic return on mineral land is much lower compared to forest land because the resource is simply made available through leasing as opposed to the continual management effort required for production of a renewable resource. (In the case of timber: planting, thinning, fire protection, insect and disease control, roads, etc.)

Various types of leases which have contributed the third largest portion of revenue in current years include lakeshore, earth materials, commercial, agricultural, governmental, squatter, peat, billboard, hunting cabin, and other miscellaneous leases. The revenues from these leases have averaged \$360,000 per year over the last several years.

Leasing and licensing on state lands for agricultural earth removal, utility crossings, commerical, governmental and miscellaneous purposes are initiated on a request basis where the individual or entity requests the use of the land for a specific purpose. Upon approval by the administering division, an appraisal is made and a lease issued. Lease rates are based on a percentage of land value, and as such the dollar returns per acre increase as land values increase. Lakeshore lease rates are also based on percentage of land value. New leases have been prohibited by law since 1974.

The level of funding needed to provide optimum revenue on state lands from surface leasing (other than for minerals) has not been determined but opportunities do exist for additional leasing especially in the areas of agricultural, peat, earth materials and commercial leasing.

School trust land sales, condemnations (purchase of trust fund land by a governmental agency) and easements, are permanent transfers of ownership or control of the land and make up the remainder of the types of revenue to the permanent school fund. All three have been sporadic over the last several years depending on private interest for land and easements, and funding levels for condemnations. Over the last several years, revenues from these sources have averaged \$352,000 per year.

Annual revenues to the school trust fund can be expected to continue to increase as land values, mineral values and timber values increase. Department funding levels for land management activities is another factor which plays an important role in generating revenues from these lands. Additional investments may be required to more aggressively generate revenue from the lands. For example, revenues from the leasing of wild rice production lands may be greater over time if the state assumes the costs of preparing the land (building dikes, installing pumps, etc) and auctions the lease to the highest bidder, instead of leasing the unimproved land at a lower rate.

E. Administration, Protection and Management Costs

School trust lands make up about 48% of the total land area administered by the Department of Natural Resources. Although the department provides other services to the public, there are several divisions within the department which are directly involved in the administration, protection and management of the state's land base. Costs associated with these activities are found on the table in Chapter 4.

The Division of Forestry has management responsibility for the 3 million acres within state forests and 1.5 million acres of undedicated lands outside of state forests. School trust lands make up about 54% of these lands under Forestry management. Over the last several years, forestry costs on school trust lands have been averaging \$2,170,000 per year.

Of the mineral rights administered by the department through the Division of Minerals, about 35% are school trust lands. Of the peat lands also administered by the department, about 25% are school trust lands. Cost for these activites on school trust lands have been averaging \$480,000 per year over the last several years.

The Bureau of Land is responsible for the acquisition, exchange, sale and lease of land, its appurtenances and rights (except for minerals and timber), the keeping and maintenance of records and maps and the coordination of recommendations for state land administration activities. All of the Bureau's activities, with the exception of acquisition, involve school trust land in varying degrees. Land administration costs over the last several years averaged \$176,000 on school trust lands.

The General Fund primarily supports these departmental activities which, in turn, provide revenue to the school trust fund and the protection and management to the school trust lands. Another cost involved which is funded by the General Fund is the annual in-lieu of tax payment for the school trust lands. This payment, authorized by the legislature in 1979, is 37.5 cents per acre for federally granted lands and has approximated \$950,000 annually for the last three years.

Other activities within the department which have more indirect benefits to the school trust lands include the Division of Waters (dam safety, public waters inventory and permitting, land use management, etc.), Office of Planning (land suitability study, research and policy, environmental review, etc.), Bureau of Engineering (surveys, engineering services, maps, descriptions), Bureau of Financial Management (accounting services and the Attorney General's Office (legal services), Parks and Recreation and Fish and Wildlife (program management activities). The actual cost figures for these activities cannot be estimated with a reasonable degree of accuracy.

These direct and indirect costs have a bearing not only on the revenues currently generated from the school trust lands, but on the maintenance and protection of their future value.

pje

5077D

PERMANENT SCHOOL FUND REVENUE BY SOURCE

SOURCE	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82	TOTAL
Leases:				Dolla	rs	No.		
Agricultural	11,652	11,489	12,449	14,660	15,606	18,023	32,242	116,121
Commercial	14,620	11,887	15,969	18,939	17,937	43,844	56,974	180,170
Earth Materials	41,189	60,045	104,409	87,859	119,035	81,505	60,812	554,854
Governmental	1,138	1,475	2,476	2,578	2,249	5,597	13,024	28,537
Hunting Cabin	685	805	685	650	2,995	3,630	3,560	13,010
Lakeshore	64,735	96,025	146,913	190,172	206,783	216,496	218,398	1,139,522
Miscellaneous	9,032	8,265	7,836	5,069	5,211	4,129	5,786	45,328
Squatter	1,600	1,625	1,610	1,560	465	4,935	2,900	14,695
Bill Board	0	0	0	86	0	0	0	. 86
Peat	738	738	738	1,276	320	440	1,753	6,003
Utility Licenses	97,320	23,865	57,247	135,339	51,817	31,728	32,260	429,576
Easements	4,376	9,571	5,811	6,882	20,914	13,566	15,501	76,621
Land Sales	83,189	46,918	63,591	36,187	53,563	238,854	203,750	726,052
Condemnations	348,269	1,550	82,888	440,693	215,038	73,940	500,025	1,662,403
Timber Sales (Total T.F.)	1,317,381	1,633,100	1,545,813	2,040,645	2,161,055	2,148,689	2,117,011	12,963,694
Mineral Leases	1,053,409	1,318,185	1,131,946	1,403,688	2,667,918	2,313,657	2,018,263	11,907,066
Miscellaneous Revenue	342	106	452	820	1,960	0	2,439	6,119
TOTAL	3,049,675	3,225,649	3,180,833	4,387,103	5,542,866	5,199,033	5,284,698	29,869,857

PERMANENT SCHOOL FUND LAND ADMINISTRATION, PROTECTION AND MANAGEMENT COSTS

Discipline	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82	TOTAL
			DOLLA	RS			Frenches	
Minerals	302,280	302,280	535,058	540,937	529,167	585,119	564,283	3,359,124
Forestry								
State Forests	1,386,706	1,957,448	1,395,093	1,195,592	1,289,165	1,238,556	2,491,557	10,954,117
Outside State Forests	506,429	832,401	511,220	397,278	450,720	421,815	1,129,419	4,249,282
Land Bureau	139,387	143,613	148,253	162,553	176,106	205,291	259,561	1,234,764
SUBTOTAL	2,334,802	3,235,742	2,589,624	2,296,360	2,445,158	2,450,781	4,444,820	19,797,287
In Lieu of Tax Payments					945,754	944,836	945,114	2,835,704
TOTAL	2,334,802	3,235,742	2,589,624	2,296,360	3,390,912	3,395,617	5,389,934	22,632,991

Planned

SCHOOL TRUST FUND LANDS in State Parks and Waysides

Park	Acres	%/Park	<u>Facilities</u>
12% Bear Head Lake	1,252	28.6	road, trail
0,1%Father Hennepin	6.5	2.1	trail
0.3 Glacial Lakes	35.23	2.6	trail
0.4 Gooseberry Falls	40	2.4	trail
16% tasca	1,613.76	5.3	road, trail
0.8 Jay Cooke	80	0.7	none
8% Judge Magney	800	17.7	none
3% Lake Bemidji	273.83	16	trails
0.4%Little Elbow	40	1.3	none
48 McCarthy Beach ?	384.95	15	trails
4% Mille Lacs Kathio	400	3.7	trails
4%Nerstrand Woods	460.29	36	campgrounds, service court, picnic area, trails, residence
29% Savanna Portage	2,969.5	18.8	trails, portage
12% Scenic	1,195	73.2	service area, 2 campgrounds, beach, picnic area, boat ramp, road, trails
2% Schoolcraft	166.2	56.3	residence, service area, campground, boat landing, picnic area, road, trails
Waysides	acres	%/Park	Facilities
0.4% Caribou Falls	40	45.5	no development
6%Cross River	600	23.4	no development
TOTAL	10,357.26		

TRUST FUND LAND MANAGEMENT REPORT PRELIMINARY OUTLINE

Preface (state purpose of document)

I. Historical Overview

Content -- general description of TF lands: origins and initial management/disposal policy; federal then state. Include passages from Enabling Acts and other pertinent legislation. (Generally, describe land grants, tax-forfeited lands, and acquired lands; show the differences among them.)

II. Existing Trust Fund Lands

- A. Comparison of original grant and existing land acreages
- B. Geographic distribution (with map), by "sub-fund" lands

Swamplands 1,559,714 acres
School Lands 607,075 acres
Indemnity School 346,097 acres
Internal Improvement 6,677 acres

TOTAL TFL 2.519.

2,519,563 acres

- C. Acreage of lands within various management units and lands not in units
- D. Revenues generated from TFL for PSF (overview/introduction)
- E. Administration, protection, and management costs (overview/introduction)

III. Mandates and TFL Management Goal

- A. Federal conditions of original grants
- B. Constitutional provisions
- C. Recap and/or embellishment of statutes (from section I.) which pertain to restrictions on management of TF Lands.
- D. Goal
 - 1. Overall Goal of TFL management is to "secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles." (Commissioner's Office 6/17/81)

- 2. Discuss balancing economic, resource, and other public concerns
- E. Advisory group (Laws of Minnesota for 1982, Ch. 548, Art. 4, Sec. 2 and 3)

IV. Administration of Trust Fund Lands

In this section, focus on legislative directives, DNR guidelines, operational orders, administrative history, and address major concerns of legislative audit.

A. Introduction (brief)

- DNR Organization -- explain overall organizational structure.
 Explain relationships and outline responsibilities of:
 - Commissioner's Office
 - . Land Bureau
 - Division of Forestry
 - . Division of Minerals

B. TFL in DNR Management Units

- * Note: for each topic included in this section, the following information should be included:
 - a. Background: pertinent data
 - Percent of TFL in unit (by subactivity area where appropriate)
 - . Percent of total unit acreage in TFL
 - . Distribution of TF Lands (?)
 - b. Administrative and management directives
 - . Enabling legislation
 - . Other pertinent state and federal legislation
 - Pertinent DNR policies, operational orders, commissioner's orders, or other guidance
 - c. Management
 - Describe notable historical changes in management
 - Describe current management
 - d. Relevant issues (and positive actions pertaining to resolution of issues)
- TFL in state forests (include discussion of BWCA and Voyageurs National Park)
- 2. TFL in wildlife management areas
- 3. TFL in state parks
- 4. TFL in other DNR management units (public accesses, trails, wild and scenic rivers, etc.)

Specific Resource Management Activities: Leasing and Timber Sale Note: use same outline format as in the preceding section (8.) 1. Minerals -- subsurface leases Forestry -- timber sales 2. 3. Lands -- lakeshore leases Lands -- other surface leases (specify types to be included) 4. Lands -- road and utility leases 5. Financial Management D. 1. TFL management vs. PSF management Composition of revenues (by source, administering discipline, 2. and/or location

Distribution/investment process 3.

Compensation for use

Administrative costs

E. Trust Land Sales and Exchange

- Note: Use outline similar to that used in B. and C., above
- 1. Trust land sales
- Trust land exchanges 2.
- Current Activities Affecting TFL Management (Only those topics which are ٧. not covered fully in the previous section would be included in this section)
 - Α. Land exchange quidelines
 - Lakeshore leasing and lakeshore update В.
 - С. Land suitability study
 - Resumption of copper-nickel leasing D.
 - Ε. Peat policy study
 - F. MERP
 - G. Mineral potential evaluation LCMR project
 - Revenue task forces H.

SCHOOL TRUST FUND LANDS in State Parks and Waysides

Park	Acres	%/Park	<u>Facilities</u>
Bear Head Lake	1,252	28.6	road, trail
Father Hennepin	6.5	2.1	trail
Glacial Lakes	35.23	2.6	trail
Gooseberry Falls	40	2.4	trail
Itasca	1,613.76	5.3	road, trail
Jay Cooke	80	0.7	none
Judge Magney	800	17.7	none
Lake Bemidji	273.83	16	trails
Little Elbow	40	1.3	none
McCarthy Beach	384.95	15	trails
Mille Lacs Kathio	400	3.7	trails
Nerstrand Woods	460.29	36	campgrounds, service court, picnic area, trails, residence
Savanna Portage	2,969.5	18.8	trails, portage
Scenic	1,195	73.2	service area, 2 campgrounds, beach, picnic area, boat ramp, road, trails
Schoolcraft	166.2	56.3	residence, service area, campground, boat landing, picnic area, road, trails
Waysides	acres	%/Park	<u>Facilities</u>
Caribou Falls	40	45.5	no development
Cross River	600	23.4	no development
TOTAL	10,357.26		

1982 -83 Reserve 2000 Con spired \$ 400,000 on trust fund land. 1984-85 Resource 2000 32000 \$ 108,000 for Deenie land ephongs Revoiry 1195 acres for Deenie land ephongs ST. CROIX 1560 ACRES #297, 400 MAY 1978 Cort meene * Rearstrand 27, 148 (57%) 47,730 Lavora 23,760 (27%) 87,600 * Scenic 33, 285 (37%) 88,885 * Schooleraft 3,782 (13%) 29,400 eltarro - Jack Pine to trust funds cut in nept 10 years, for stand rejurienation, Monage lands londs for to perpeteate

SCHOOL TRUST FUND LANDS in State Parks and Waysides

Park	Acres	%/Park	Facilities
Bear Head Lake	1,252	28.6	road, trail
Father Hennepin	6.5	2.1	trail
Glacial Lakes	35.23	2.6	trail
Gooseberry Falls	40	2.4	trail
Itasca	1,613.76	5.3	road, trail
Jay Cooke	80	0.7	none
Judge Magney	800	17.7	none
Lake Bemidji	273.83	16	trails
Little Elbow	40	1.3	none
McCarthy Beach	384.95	15	trails
Mille Lacs Kathio	400	3.7	trails
Nerstrand Woods	460.29	36	campgrounds, service court, picnic area, trails, residence
Savanna Portage	2,969.5	18.8	trails, portage
Scenic	1,195	73.2	service area, 2 campgrounds, beach, picnic area, boat ramp, road, trails
Schoolcraft	166.2	56.3	residence, service area, campground, boat landing, picnic area, road, trails
Waysides	acres	%/Park	<u>Facilities</u>
Caribou Falls	40	45.5	no development
Cross River	600	23.4	no development
TOTAL	10,357.26		

SCHOOL TRUST FUND LANDS in State Parks and Waysides

Park	Acres	%/Park	Facilities
Bear Head Lake	1,252	28.6	road, trail
Father Hennepin	6.5	2.1	trail
Glacial Lakes	35.23	2.6	trail
Gooseberry Falls	40	2.4	trail
Itasca	1,613.76	5.3	road, trail
Jay Cooke	80	0.7	none
Judge Magney	800	17.7	none
Lake Bemidji	273.83	16	trails
Little Elbow	40	1.3	none
McCarthy Beach	384.95	15	trails
Mille Lacs Kathio	400	3.7	trails
Nerstrand Woods	460.29	36	campgrounds, service court, picnic area, trails, residence
Savanna Portage	2,969.5	18.8	trails, portage
Scenic	1,195	73.2	service area, 2 campgrounds, beach, picnic area, boat ramp, road, trails
Schoolcraft	166.2	56.3	residence, service area, campground, boat landing, picnic area, road, trails
Waysides	acres	%/Park	<u>Facilities</u>
Caribou Falls	40	45.5	no development
Cross River	600	23.4	no development
TOTAL	10,357.26		

4640D 25.10.82

TRUST FUND LAND MANAGEMENT REPORT PRELIMINARY OUTLINE

Send Copy of Peut to theyler

Preface (state purpose of document)

I. Historical Overview

Content -- general description of TF lands: origins and initial management/disposal policy; federal then state. Include passages from Enabling Acts and other pertinent legislation. (Generally, describe land grants, tax-forfeited lands, and acquired lands; show the differences among them.)

II. Existing Trust Fund Lands

- A. Comparison of original grant and existing land acreages
- B. Geographic distribution (with map), by "sub-fund" lands

Swamplands 1,559,714 acres
School Lands 607,075 acres
Indemnity School 346,097 acres
Internal Improvement 6,677 acres

TOTAL TFL

2,519,563 acres

- C. Acreage of lands within various management units and lands not in units
- D. Revenues generated from TFL for PSF (overview/introduction)
- E. Administration, protection, and management costs (overview/introduction)

III. Mandates and TFL Management Goal

- A. Federal conditions of original grants
- B. Constitutional provisions
- C. Recap and/or embellishment of statutes (from section I.) which pertain to restrictions on management of TF Lands.
- D. Goal
 - 1. Overall Goal of TFL management is to "secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles." (Commissioner's Office .6/17/81)

- 2. Discuss balancing economic, resource, and other public concerns
- E. Advisory group (Laws of Minnesota for 1982, Ch. 548, Art. 4, Sec. 2 and 3)

IV. Administration of Trust Fund Lands

In this section, focus on legislative directives, DNR guidelines, operational orders, administrative history, and address major concerns of legislative audit.

A. Introduction (brief)

- DNR Organization -- explain overall organizational structure.
 Explain relationships and outline responsibilities of:
 - Commissioner's Office
 - Land Bureau
 - . Division of Forestry
 - . Division of Minerals

B. TFL in DNR Management Units

- * Note: for each topic included in this section, the following information should be included:
 - a. Background: pertinent data
 - Percent of TFL in unit (by subactivity area where appropriate)
 - . Percent of total unit acreage in TFL
 - . Distribution of TF Lands (?)
 - Administrative and management directives
 - Enabling legislation
 - . Other pertinent state and federal legislation
 - Pertinent DNR policies, operational orders, commissioner's orders, or other guidance
 - c. Management
 - Describe notable historical changes in management
 - Describe current management
 - d. Relevant issues (and positive actions pertaining to resolution of issues)
- TFL in state forests (include discussion of BWCA and Voyageurs National Park)
- 2. TFL in wildlife management areas
- TFL in state parks
- 4. TFL in other DNR management units (public accesses, trails, wild and scenic rivers, etc.)

Specific Resource Management Activities: Leasing and Timber Sale Note: use same outline format as in the preceding section (8.) Minerals -- subsurface leases Forestry -- timber sales 2. 3. Lands -- lakeshore leases Lands -- other surface leases (specify types to be included) 4. Lands -- road and utility leases 5. Financial Management D. TFL management vs. PSF management 1. Composition of revenues (by source, administering discipline, 2. and/or location Distribution/investment process 3. Compensation for use 4. Administrative costs E. Trust Land Sales and Exchange Note: Use outline similar to that used in B. and C., above 1. Trust land sales Trust land exchanges 2. Current Activities Affecting TFL Management (Only those topics which are ٧. not covered fully in the previous section would be included in this section) Land exchange guidelines Α. Lakeshore leasing and lakeshore update В. С. Land suitability study Resumption of copper-nickel leasing D. E. Peat policy study F. MERP Mineral potential evaluation LCMR project G. H. Revenue task forces

TRUST FUND LAND MANAGEMENT REPORT PRELIMINARY OUTLINE

Preface (state purpose of document)

I. Historical Overview

Content -- general description of TF lands: origins and initial management/disposal policy; federal then state. Include passages from Enabling Acts and other pertinent legislation. (Generally, describe land grants, tax-forfeited lands, and acquired lands; show the differences among them.)

II. Existing Trust Fund Lands

- A. Comparison of original grant and existing land acreages
- B. Geographic distribution (with map), by "sub-fund" lands

Swamplands 1,559,714 acres School Lands 607,075 acres Indemnity School 346,097 acres Internal Improvement 6,677 acres

TOTAL TFL

2,519,563 acres

- C. Acreage of lands within various management units and lands not in units
- D. Revenues generated from TFL for PSF (overview/introduction)
- E. Administration, protection, and management costs (overview/ introduction)

III. Mandates and TFL Management Goal

- A. Federal conditions of original grants
- B. Constitutional provisions
- C. Recap and/or embellishment of statutes (from section I.) which pertain to restrictions on management of TF Lands.
- D. Goal
 - 1. Overall Goal of TFL management is to "secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles." (Commissioner's Office 6/17/81)

- 2. Discuss balancing economic, resource, and other public concerns
- E. Advisory group (Laws of Minnesota for 1982, Ch. 548, Art. 4, Sec. 2 and 3)

IV. Administration of Trust Fund Lands

In this section, focus on legislative directives, DNR guidelines, operational orders, administrative history, and address major concerns of legislative audit.

A. Introduction (brief)

- DNR Organization -- explain overall organizational structure. Explain relationships and outline responsibilities of:
 - Commissioner's Office
 - . Land Bureau
 - Division of Forestry
 - . Division of Minerals

B. TFL in DNR Management Units

- * Note: for each topic included in this section, the following information should be included:
 - a. Background: pertinent data
 - Percent of TFL in unit (by subactivity area where appropriate)
 - Percent of total unit acreage in TFL
 - . Distribution of TF Lands (?)
 - b. Administrative and management directives
 - . Enabling legislation
 - . Other pertinent state and federal legislation
 - Pertinent DNR policies, operational orders, commissioner's orders, or other guidance
 - c. Management
 - Describe notable historical changes in management
 - Describe current management
 - d. Relevant issues (and positive actions pertaining to resolution of issues)
- TFL in state forests (include discussion of BWCA and Voyageurs National Park)
- 2. TFL in wildlife management areas
- 3. TFL in state parks
- TFL in other DNR management units (public accesses, trails, wild and scenic rivers, etc.)

- C. Specific Resource Management Activities: Leasing and Timber Sale
 - * Note: use same outline format as in the preceding section (8.)
 - 1. Minerals -- subsurface leases
 - 2. Forestry -- timber sales
 - 3. Lands -- lakeshore leases
 - 4. Lands -- other surface leases (specify types to be included)
 - 5. Lands -- road and utility leases

D. Financial Management

- 1. TFL management vs. PSF management
- Composition of revenues (by source, administering discipline, and/or location
- 3. Distribution/investment process
- 4. Compensation for use
- 5. Administrative costs

E. Trust Land Sales and Exchange

- * Note: Use outline similar to that used in B. and C., above
- 1. Trust land sales
- 2. Trust land exchanges
- V. Current Activities Affecting TFL Management (Only those topics which are not covered fully in the previous section would be included in this section)
 - A. Land exchange guidelines
 - B. Lakeshore leasing and lakeshore update
 - C. Land suitability study
 - D. Resumption of copper-nickel leasing
 - E. Peat policy study
 - F. MERP
 - G. Mineral potential evaluation LCMR project
 - H. Revenue task forces

TRUST FUND LAND MANAGEMENT REPORT PRELIMINARY OUTLINE

Preface (state purpose of document)

I. Historical Overview

Content -- general description of TF lands: origins and initial management/disposal policy; federal then state. Include passages from Enabling Acts and other pertinent legislation. (Generally, describe land grants, tax-forfeited lands, and acquired lands; show the differences among them.)

II. Existing Trust Fund Lands

- A. Comparison of original grant and existing land acreages
- B. Geographic distribution (with map), by "sub-fund" lands

 Swamplands
 1,559,714 acres

 School Lands
 607,075 acres

 Indemnity School
 346,097 acres

 Internal Improvement
 6,677 acres

TOTAL TFL

2,519,563 acres

- C. Acreage of lands within various management units and lands not in units
- D. Revenues generated from TFL for PSF (overview/introduction)
- E. Administration, protection, and management costs (overview/introduction)

III. Mandates and TFL Management Goal

- A. Federal conditions of original grants
- B. Constitutional provisions
- C. Recap and/or embellishment of statutes (from section I.) which pertain to restrictions on management of TF Lands.
- D. Goal
 - 1. Overall Goal of TFL management is to "secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles." (Commissioner's Office 6/17/81)

- 2. Discuss balancing economic, resource, and other public concerns
- E. Advisory group (Laws of Minnesota for 1982, Ch. 548, Art. 4, Sec. 2 and 3)

IV. Administration of Trust Fund Lands

In this section, focus on legislative directives, DNR guidelines, operational orders, administrative history, and address major concerns of legislative audit.

A. Introduction (brief)

- 1. DNR Organization -- explain overall organizational structure. Explain relationships and outline responsibilities of:
 - Commissioner's Office
 - . Land Bureau
 - . Division of Forestry
 - . Division of Minerals

B. TFL in DNR Management Units

- * Note: for each topic included in this section, the following information should be included:
 - a. Background: pertinent data
 - Percent of TFL in unit (by subactivity area where appropriate)
 - Percent of total unit acreage in TFL
 - . Distribution of TF Lands (?)
 - b. Administrative and management directives
 - . Enabling legislation
 - . Other pertinent state and federal legislation
 - Pertinent DNR policies, operational orders, commissioner's orders, or other guidance
 - c. Management
 - Describe notable historical changes in management
 - Describe current management
 - d. Relevant issues (and positive actions pertaining to resolution of issues)
- 1. TFL in state forests (include discussion of BWCA and Voyageurs National Park)
- 2. TFL in wildlife management areas
- 3. TFL in state parks
- TFL in other DNR management units (public accesses, trails, wild and scenic rivers, etc.)

Specific Resource Management Activities: Leasing and Timber Sale С. Note: use same outline format as in the preceding section (8.) Minerals -- subsurface leases 1. Forestry -- timber sales 2. Lands -- lakeshore leases 3. Lands -- other surface leases (specify types to be included) 4. 5. Lands -- road and utility leases Financial Management D. TFL management vs. PSF management 1. Composition of revenues (by source, administering discipline, 2. and/or location Distribution/investment process 3.

Note: Use outline similar to that used in B. and C., above

Current Activities Affecting TFL Management (Only those topics which are not covered fully in the previous section would be included in this

Compensation for use

Administrative costs

Trust Land Sales and Exchange

Trust land sales

Land exchange guidelines

Land suitability study

Peat policy study

Revenue task forces

Trust land exchanges

Lakeshore leasing and lakeshore update

Resumption of copper-nickel leasing

Mineral potential evaluation LCMR project

4.

5.

1.

2.

section)

Α.

В.

С.

D.

E.

F.

G.

H.

MERP

E.

SF-00006-03

TO: PERT Committee Or Davisor Office Memorandum

DEPARTMENT NATURAL RESOURCES

DATE: January 28, 1985

FROM: Rod Sando, Administrator

Land Bureau

PHONE: 7-4931

SUBJECT: Compensation of the Permanent School Fund for Uses and Activities on School Trust Land which Limit or Preclude Direct Revenue Generation

> Attached are summaries on trust land court cases and opinions, and management in other states which may be helpful in formulating our goal statement.

We have extensive materials on file from which these summaries were derived, if further information is desired.

I suggest that the following language should be used for the goal statement:

To secure the maximum long-term economic return from the school lands, consistent with the fiduciary responsibilities to the trustee, consistent with sound natural resource management principles, and specific policy guidance as provided in the state constitution and state law.

RWS: SAW: kms

cc: Tom Balcom Steve Thorne Gene Gere Paul Faraci

RECEIVED

JAN 20 III.

Dipt. of Natural Resources -Liv. of Parks & Recreation

SUMMARY OF COURT CASES AND OPINIONS

REGARDING TRUST FUND LANDS

Alaska: University of Alaska vs. State of Alaska

The state granted leases at less than value, therefore, the State breached

its trust agreement with the University.

Alaska: Opinion Supreme Court of Alaska 1983

It was a breach of trust to include University trust land in a State

Park without compensation.

Arizona: Lassen vs. Arizona 1967

Arizona must compensate the trust for full value of lands (for high-

way rights of way, etc.).

California: AGO Opinion by Stanley Mosk, Attorney General,

Paul W. Joseph, Deputy 1963

"The Legislature does not have authority to relieve any particular parcel of school lands or all school lands of the implied school trust by authorizing the transfer of possession or control of the lands for purposes of a state agency which purposes have nothing to do with public schools generally unless the full market value is received for the amount

of the school land trust."

Montana: AGO Opinion by Robert L. Woodahl, Attorney General 1976

The state must compensate its school trust in money for the full appraised value of any school trust lands designated as or exchanged for natural

areas.

Montana: Opinion by Mike Greely, Attorney General, State of Montana 1983

"The Board of Land Commissioners in establishing state grazing lease fees has not only the authority to negotiate leases in excess of the formula established by statute, but, in light of its constitutional sources, an absolute duty to achieve fair market value on each grazing

lease it negotiates."

Nebraska: State ex rel. Ebke vs. Board of Education Lands and Funds 1951

A trustee in so handling trust property, violates his duty as a trustee. The trustee's handling of trust property including the rental thereof, must be in such a manner as to produce a reasonable rental based upon the fair market value of the property. This duty was imposed on the state by the constitution when it designated the state as a trustee. The plan set up by the Legislature is inconsistent with the duties imposed by law upon a trustee and, consequently, inconsistent with the grant and the acceptance thereof. A breach of trust in such a situation is, in effect, a violation of the constitutional provision and has the effect

of invalidating the legislation authorizing the breach.

The evidence establishes that the legislation in question operates to the special benefit of existing lessees desiring to continue as such at rental based on an arbitrary valuation shown to be much less than the fair market value of the property. This is not within the power of the legislature. It's duty in providing a method of administering

a trust of which the state is a trustee is to act for the best interest of the trust estate and obtain for it the most advantageous return possible.

New Mexico: AGO Opinion by Art Waskey 1983

Statutory maximum lease rates may be an unconstitutional limitation on the trustees' ability to produce income for the beneficiaries.

Oklahoma: Opinion by Jan Eric Cartwright, Attorney General, State of Oklahoma 1981

The Commissioners are under a duty to appraise and reappraise (preference right and non-preference right) lands prior to leasing or re-leasing the same, in order to assure that the rental rate will be economic.

Oklahoma: Oklahoma Education Association vs. Nigh 1982

Ruling that the trust must be managed for the exclusive benefit of the public schools. That state officials are mandated by the Constitution to maintain the maximum rate of return to the trust estate.

Washington: The County of Skamania v. the State of Washington 1984

The Washington Supreme Court invalidated the Forest Products Industry Recovery Act of 1982, which modified contracts for the sale of timber from state trust lands. The act violated the state's fiduciary duties

to the trust beneficiaries under the State Constitution.

Washington: U.S. v. 111.2 Acres of Land in Ferry County, Washington 1968

The U.S. Government was not permitted to acquire, without payment, state school trust lands for a federal irrigation project. The court concluded that a donation of the school trust lands to the U.S. would constitute a breach of trust by the trustee (State of Washington).

SCHOOL TRUST LAND MANAGEMENT IN OTHER STATES

It has been a common practice for the United States to grant federal public land to the states for school purposes. The grants vary in their provisions. Some are general, merely granting the lands "for school purposes." Other grants make specific provision for the use and disposal of the lands and contain provisions for the enforcement of the terms of the grants. Usually the enabling act under which the state entered the Union refers to a present or anticipated school land grant and the state Constitution provides either restrictions on the use of the lands or the use of their proceeds, or on both, leaving to the Legislature the task of carrying out the purposes of the grants and the constitutional restrictions. The courts of the various states have placed different interpretations upon the particular grants and constitutional provisions. In some cases similar grants and constitutional provisions have been construed in a contrary manner with respect to the use and disposition of school lands. From AGO Opinion by Stanley Mosk, Attorney General, Paul M. Joseph, Deputy; Opinion No. 63-48-June 5, 1963. (California)

Every state in the Union admitted since 1802 has received a land grant for public schools except Texas, which retained all of its public lands, and Maine and West Virginia, in which the U.S. had no lands to give. From 1802 to 1948, states were granted one section per township for public schools.

California, in 1853, was the first state to receive a grant of two sections for its public schools. Minnesota, in 1857, was the second. Thirteen more states during this period of time, all western states received two sections. Then Utah, Arizona and New Mexico received four sections because the lands were arid and of such low value.

The following is a summary of statements from materials on other states' management of their school trust lands.

Alaska:

- -State law in 1978 redesignated school trust land, and other trust lands, as general grant land.
- -Prior to 1978 trust lands were managed for revenue production but there were leases at less than fair market value.
- -A law suit between the University of Alaska and the State of Alaska concluded that it was a breach of trust to include trust land in a park without compensation.
- -Another law suit between the University and the State concluded that leases at less than fair market value breaches the trust agreement.

Arizona:

- -The State's guiding philosophy in administering it's trust acreage is to generate the highest possible revenue therefrom "consistent with good management practices and sustained yields.
- -By law, all state lands, except those under mineral application, must be classified by the State Land Department prior to leasing, and such lands may only be leased under the classification so fixed.

California:

Legislative findings and declarations.

- -Past policies of the State resulted in significant depletion of the inventory of lands granted by the federal government for the purposes of providing fiscal support for the public school system.
- -It is essential that all remaining school lands and attendant interests be managed as an economic base for support of public schools and that these assets be maintained and supplemented to optimize their revenue generating capabilities.
- -The commission shall plan, identify and pursue all transactions including exchanges, sales and acquisitions which would beneficially facilitate the management of school land interests.
- -It is the policy of the State that the commission take all action necessary to fully develop school lands, indemnity interests and attendant mineral interests into a continuing and permanent resource base.
- -It is in the State's best interest that school lands be developed and managed as a revenue source and it is legislative intent that fair market value be a primary criterion in determining if proposed use or dispositions of land should be approved.



- -The blocking up of school lands into contiguous parcels is essential to sound and effective management and the power to acquire lands by exchange or purchase is elemental to this process.
- -Section 1, Chapter 4, Public Resources Code.

Colorado:

- -State constitution provides for sale or other disposition of lands "in such manner as will secure the maximum possible amount therefor."
- -Land Commissioner states that "I think it is a challengeable error to acknowledge benefits other than revenue, except to the extent that we can relate to future advantages by deferring immediate revenues." Also,
- -"The legislature cannot limit our ability to maximize return, at least not directly. Because we are dependent on it for our funding, there are indirect controls."

Colorado (cont'd)

- -"In regard to environmental considerations, I would like to exchange out of sensitive properties."
- -The Colorado State Board of Land Commissioners, unlike other state agencies, derives its mission and its authority from the state Constitution, rather than from the statutes. This is an important difference, since it means that in instances where the statutes are in conflict, or contrary to the Board's constitutional charge it is the Constitution which prevails.

Montana:

- -State statutes read "The Board shall manage state lands under multiple use concept..so that they are utilized in that combination best meeting the needs of the people and the beneficiaries of the trust."
- -Chief Legal Counsel states "The only benefits recognized in managing state trust land are monetary benefits. The long-term productivity of the trust in terms of sustained production of income is important and therefore the land must be managed carefully and wisely."

New Mexico:

- -The New Mexico trust lands are not open to the general public unless they purchase some form of lease-hold interest such as grazing, mining or oil and gas leases. These leaseholders are obligated under terms of their lease agreements to protect the land from trespassers.
- -A hunting easement issued by the State Game and Fish Department allows public entry into the trust lands during the established seasons, however, this use is not free. The Game and Fish Department pay the Land Office approximately \$90,000 each year for these rights. (State Land Office Report 1982.)

Oklahoma:

- -The Oklahoma School Land Commission which was set up to manage the lands and earnings from the lands were ordered to sell all the farmland in the trust after a state judge held them responsible for leasing the property well below market value and for lending money at improperly low interest rates. The ruling in Oklahoma Education Association v. Nigh stated that the trust must be managed for the "exclusive benefit" of the public schools. The land commission has since raised its lease rates and interest rates on loans and has been allowed to retain the farm lands.
- -The same case, with respect to grazing fees, determined that a preferential right to renew leases was unconstitutional. The state has now gone to unrestricted public bidding.

Washington:

- -Washington's constitution provides explicitly that "...none of such lands, nor any estate or interest therein, shall ever be disposed of unless the full market value of the estate or interest disposed of,...be paid or safely secured to the state."
- -Washington's legislature has directed the WDNR to apply a "sustained yield" management concept to those lands primarily suitable for timber production. The legislature also has directed the WDNR to utilize a "multiple use" concept in managing state lands.
- -Multiple use is conditioned by the legislature in two respects. Multiple use management is subject to the overriding trust responsibilities and is to be applied only where it would be in the best interest of the state and the general welfare of the citizens.

recomscribed

for the outside les dise route as with having

it and use of eas, in

of sewegulate as will entire

pector ike all oplica-

ounty nd for

th an

eclabpinted shall

withading . The of the

e and efore nend, nance ed in and recommend, and the county board adopt, alterations, additions, and repeals of the ordinance or parts thereof, from time to

Proposed regulations, or changes in same, shall be published in a legal newspaper in the county at least ten days before the county board meeting at which same will be considered for adoption; at such meeting, any interested party shall be heard; any interested party shall have the right to appeal to the district court within 30 days after the adoption of said ordinance, or change therein.

- Subd. 3. The planning commission may be authorized by the county board to supervise and administer said ordinance, or parts thereof, and the work of the inspector above mentioned.
- Sec. 3. The ordinance shall have the force of law, and a violation thereof is a misdemeanor; the same may be enforced by injunction.
- Sec. 4. This act is effective only after its approval by majority vote of the county board of Mower county.

Approved March 23, 1959,

CHAPTER 102—H. F. No. 768

Alberta, la malanta de Alfred III. Production de protamble de serviciones de la composition de pro-

[Coded]

An act to establish and dedicate Schooleraft State Recreation Reserve in Cass County.

Be it enacted by the Legislature of the State of Minnesota:

Section 1. [85.192] Schoolcraft State Recreation Reserve. [Subdivision 1.] All state owned lands now under the jurisdiction of the commissioner of conservation together with all lands now or hereafter forfeited for nonpayment of taxes and all lands including trust fund lands now owned or hereafter acquired by the State, which are located in Cass County within the limits hereinafter described are hereby withdrawn from sale and perpetually dedicated for state park purposes, to-wit:

All that part of Government lot 4, section 2, township 143 north, range 25 west lying east of a line that is an extension of the north quarter line of said section, Government lots 5, 6, 7, 3, 9 and 12 of section 2, township 143 north, range 25 west;

Subd. 7. No gasoline shall be unloaded by any person from truck transports between the hours of 9:00 P. M. and 5:30 A. M. except by special permission of the commissioner.

Subd. 8. Casoline shall conform to the specifications by which it is offered for sale or sold. The there stones are intest

Subd. 9. Charging a higher price for gasoline draws from one pump than from another at the same place shall be prima facie evidence that the higher priced product is a better quality gasoline for the purpose for which it is to be used. . . 6:

2 Subd. 10. Each gasoline pump in this state shall have the total sales price per gallon posted on the pump in a con-

the total sales price per gallon posted on the pump in a conspicuous manner."

Approved March 26, 1945.

Ils.

G. Pault

Approved March 26, 1945.

CHAPTER 153-S. F. No. 338

An act providing for the establishment, maintenance and control of Nerstrand Woods State Park.

Be it enacted by the Legislature of the State of Minnesota:

Section 1. Nerstrand Woods State Park established. Upon receipt from the United States, pursuant to an agreement to exchange lands of the state heretofore approved by the Land Exchange Commission, of title to certain lands located in Sections 9 and 16, Township 110 North, Range 19 West, in Rice County, Minnesota, the same, together with any other lands in such sections now or hereafter forfeited to the state for non-payment of taxes, or otherwise acquired as herein provided, shall be and hereby are withdrawn from sale, set apart, established and dedicated as a state park to be known as Nerstrand Woods State Park.

snown as regrettand woods State Park.

Sec. 2. Acquisition of lands; perfecting title thereto. The commissioner of conservation is hereby authorized to initiate any legal action which in his opinion is desirable upon the advice of the attorney general, to cure any defects in title or perfect the title of any of the lands affected hereby, and he may acquire any outstanding interests in such lands or the title to any other privately owned lands adjacent to the lands dedicated for state park purposes hereby, either by gift or by purchase, with any funds made available to him for that Live cornect trade over the color of the corne

				OPTIONS
PARK	ACRES	EST. /ACRE	TOTAL COST	1 201/
CA CONTRACTOR OF		COST. JACKE	C007	1 234
Bond Homas Lake	4.5	2.00		
ELINER HEMPENIS	35.23			
GOOSE BERRY PALLS	40	360	12 920	
Trasca	1,413,76	325	4897 4	
Cay Cooks		250	To Fall	
JUDGE MAGNEY	800	250	200000	
LITTLE ELBOW	40	300	12000	
McCARTHY BEACH	384.95	500	192500	
Mile Las Kathia	440	500	244 0 00	
NEARSTEAND MODS	1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 -	7000	760009	
SAVANNA PORTAGE	2969.5	200	593900	
OS CENTE TO THE TOTAL TO	1195	500	83000	
SCHOOLCRAFT	166.2	290	13900	
CARIBOU FACES	40	250	10000	
CRESS PROCE	4000	250	2 /36460	
<i>T</i> _			11 - 1 - 1 - 1	
TOTAL	10357		4218215	
FLANELIN				
OPTION	ACRES	0/000	COST	
4.		TRUST		
# 1 (4 PARKS) # 2 (4 PARKS) # 3 (1 PARK) # 4 (4 PARKS)	555.23 755,23		199615	
# 2 (4PARKS) #3 (1PARK)	273,83		246447	
#4 (4PARKS)	161.73		199615	

```
SL FRUST FORT
OK, SEG P. TRUST*
               MLMIS
               METRO SQ BLD LL45
               7TH AND ROBERT
              ST FAUL MN 55101
               01/03/83
          SET
              COL = 1434
         STARTLOO
              OLD = SUTTAB>SAVE>EFF.FRKS.STATE
           FORTRAN
             NEW1=0
             IF (OLD1.GT.O)NEW1=1
           STOPLOOF
              NEW = SUITAB>SAVE>EFF.TEMF
              NAM == *
             113.24 CFU SECONDS
                                     3.45 DISK SECONDS
         COUNT
              MIN = 0
              MAX = 10
              MIN = 1
              MAX = 9
              MIN == 1
              MAX == 1
              OLD = MLMIS40>STATE>EFF.FORT
              LEG = XLEGEN>LEG.FORT.S
              OLD = MLMIS40>STATE>EFF.OW32
              LEG = SUITAB>SAVE>LEG.TRUST
              OLD = SUTTABESAVEREFF. TEMP
              LEG ::: *
FREQUENCY COUNT OF VARIABLE SUITAB>SAVE>EFF.TEMP
  FREQUENCY COUNT OF SUB VARIABLE MLMIS40>STATE>EPP.OW32
```

FREQUENCY COUNT OF SUB SUB VARIABLE MLMIS40>STATE>EPP.FORT

VARIABLE

SUB VARIABLE

SUB SUB VARIABLE

U U U

OVERFLOW COUNT

184.86 CFU SECONDS

145263

9.52 DISK SECONDS

```
SL FORT. TRUST
OK, SEG P. TRUSTX
          EEEEEE
                 E. E. E. E. E. E. F.
               MLMIS
               METRO SQ BLD LL45
               7TH AND ROBERT
               ST FAUL MN 55101
               01/03/83
          2 E. J.
              COL = 1434
          COUNT
              MIN == 1
               MAX == 9
               MIN == ()
               MAX = 10
               MIN == 1
               MAX ::: 1
              OLD = MLMIS40>STATE>EFF.OW32
               LEG = SUITAB>SAVE>LEG.TRUST
              OLD = MLMIS40>STATE>EFF.FORT
               LEG = XLEGENDLEG.FORT.S
              OLD = SUITAB>SAVE>EFF.TEMF
               L.E.G ::: %.
 FREQUENCY COUNT OF VARIABLE SUITAB>SAVE>EFF.TEMP
   FREQUENCY COUNT OF SUB VARIABLE MLMIS40>STATE>EFF.FORT
     FREQUENCY COUNT OF SUB SUB VARIABLE MLMIS40>STATE>EPP.OW32
          VARIABLE
          * CHR VARTARIE
```

*		JARIABLE BUB VARIABLE			
	VV	SYMBOL AAAA	COUNT 318	PERCENTAGES	DESCRIPTION
		AAAA		20.44 20.44	PINE: Fredominantly White Fine, Red Fine, or Jack Fine, singly or in combination.
	1.	AAAA		83.08 83.08	SCHOOL
		AAAA	44.5 ******	6.15 89.23	INDEMNITY SCHOOL
	1.3	AAAAA		10,77 100,007	SPRUCE-FER: Predominantly Balsam Fir, White Spruce, Black
		AAAA			Spruce, Tamarack, or Northern White-Cedar, singly or in combination.
	1	AAAA	A,	5.00 5.00	SCHOOL
	2	AAAA		31.25 36.25	INDEMNITY SCHOOL
	3	AAAA		56.25 92.50	SWAMP
		AAAA	63	7.50 100.00	UNIVERSITY
	4	AAAA	24	7.55) 53.14	ELM-ASH-COTTONWOOD: Fredominantly Lowland Elm, Black Ash, Cottonwood, or Red Marle, singly or in combination.
	1.	AAAA	1.2	50.00 50.00	SCHOOL
	2	AAAA		8.33 58.33	INDEMNITY SCHOOL
	3	AAAA	10	41-47 100.00	
		AAAA	20	6,29 59,43	MAPLE-BASSWOOD: Predominantly Sugar Maple, Basswood, Yellow Birch or Upland Elm, and Red Maple, singly or in combination.
	1.	AAAA	9	45.00 45.00	SCHOOL
	2.7	AAAA	1.	5,00 50,00	INDEMNITY SCHOOL
	3	AAAA	10	50.00 100.00	SWAME
	6	AAAA	116	736.48 95.91	ASPEN-BIRCH: Predominantly Aspen, Balsam, Forlar, or Farer Birch, singly or in combination.
	1	AAAA	77	66.38 66.38	SCHOOL
	2	AAAA	1.7	14,66 81,03	INDEMNITY SCHOOL
	.3	AAAA	1.6	13.79 94.83	SWAMP
	1	AAAA	ć	5.17 100.00	UNIVERSITY
	7	AAAA		(1.57)97.48	UNFRODUCTIVE FOREST LAND: Land incapable of producing industrial wood under natural conditions because of poor site. (Note: Usually poorly drained swamp conifers)
	2.	AAAA		40.00 40.00	INDEMNITY SCHOOL
		AAAA		60.00.00	SWAMP
	**	AAAA		2.52 100.00	NON-FOREST LAND: A forty-acre parcel which is not dominantly covered by forest trees or is within built-up urban areas.
	1	AAAA	A	75.00 75.00	SCHOOL
	23	AAAA	1	12.50 87.50	INDEMNITY SCHOOL
		AAAA		12.50 100.00	SWAMP
TOTAL COUNTRIL			318		

CLASS	SYMBOL	COUNT	PERCENTAGES	DESCRIPTION
	AAAAAA	318	100.00 100.00	SCHOOL
parks 1	AAAA	E; 4	33,33 33,33	PINE: Predominantly White Pine, Red Pine, or Jack Pine, singly or in combination.
2	AAAA	4	2.47 35.80	SPRUCE-FIR: Predominantly Balsam Fir, White Spruce, Black Spruce, Tamarack, or Northern White-Cedar, singly or in combination.
4	AAAA	1.2	7.41 43.21	ELM-ASH-COTTONWOOD: Predominantly Lowland Elm, Black Ash, Cottonwood, or Red Marle, singly or in combination.
	AAAA	9	5.56 48.77	MAPLE-BASSWOOD: Predominantly Susar Maple, Basswood, Yellow Birch or Upland Elm, and Red Maple, singly or in combination
6	AAAA	77	47.53 96.30	ASPEN-BIRCH: Fredominantly Aspen, Balsam, Poplar, or Paper Birch, singly or in combination.
9	AAAA		3.70 100.00	NON-FOREST LAND: A forty-acre parcel which is not dominantl
				covered by forest trees or is within built-up urban areas.
2	AAAAA	52	16.35 67.30 7.69	INDEMNITY SCHOOL FINE: Predominantly White Pine, Red Pine, or Jack Pine, singly or in combination.
	AAAA	25	48.08 55.77	SPRUCE-FIR: Predominantly Balsam Fir, White Spruce, Black Spruce, Tamarack, or Northern White-Cedar, singly or in combination.
4	AAAA	2	3.85 59.62	ELM-ASH-COTTONWOOD: Predominantly Lowland Elm, Black Ash, Cottonwood, or Red Maple, singly or in combination.
	AAAA		1.92 61.54	MAPLE-BASSWOOD: Predominantly Sugar Maple, Basswood, Yellow Birch or Upland Elm, and Red Maple, singly or in combination
	AAAA	1.7	32,69 94,23	ASPEN-BIRCH: Fredominantly Aspen, Balsam, Poplar, or Paper Birch, singly or in combination.
7	AAAA		3.85 98.08	UNPRODUCTIVE FOREST LAND: Land incapable of producing industrial wood under natural conditions because of poor site. (Note: Usually poorly drained swamp conifers)
9	AAAA		1.92 100.00	NON-FOREST LAND: A forts-acre parcel which is not dominantl
				covered by forest trees or is within built-up urban areas.
3	AAAAA	92	28.93 96.23 7.61	SWAMP PINE: Predominantly White Pine, Red Pine, or Jack Pine, singly or in combination.
	AAAA	45	48.91 56.52	SPRUCE-FIR: Predominantly Balsam Fir, White Spruce, Black Spruce, Tamarack, or Northern White-Cedar, singly or in combination.
4	AAAA	10	10.87 67.39	ELM-ASH-COTTONWOOD: Predominantly Lowland Elm, Black Ash, Cottonwood, or Red Maple, singly or in combination.
	AAAA	10	10.87 78.26	MAPLE-BASSWOOD: Predominantly Sugar Maple, Basswood, Yellow Birch or Upland Elm, and Red Maple, singly or in combination
	AAAA	1. 6	17.39 95.65	ASPEN-BIRCH: Predominantly Aspen, Balsam, Poplar, or Paper Birch, singly or in combination.
	AAAA	3	3.26 98.91	UNPRODUCTIVE FOREST LAND: Land incapable of producing industrial wood under natural conditions because of poor site. (Note: Usually poorly drained swamp conifers)
9	AAAA		1.09 100.00	NON-FOREST LAND: A forty-acre parcel which is not dominantl
				covered by forest trees or is within built-up urban areas.
5	AAAA	12	3.77 100.00 50.00	UNIVERSITY SPRUCE-FIR: Predominantly Balsam Fir, White Spruce, Black Spruce, Tamarack, or Northern White-Cedar, singly or in combination.
	AAAA	6	50.00 100.00	ASPEN-BIRCH: Predominantly Aspen, Balsam, Poplar, or Paper Birch, singly or in combination.
TOTAL COUNT		318		

TOTAL COUNT 318
UNDERFLOW COUNT 1214210
OVERFLOW COUNT 145261
194.30 CPU SECONDS 13.82 DISK SECONDS

OK, C 1 2 3 4 5 7

UK, U 1 2 3 4 5 / OK, C 10 11 12 14

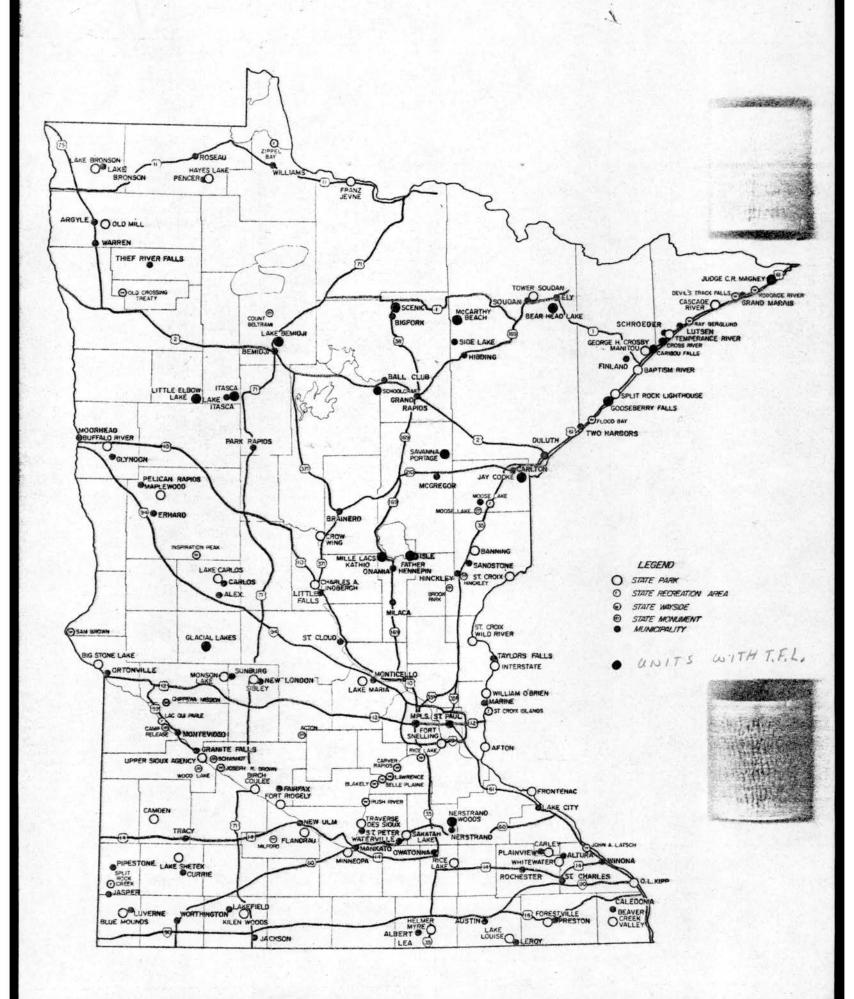
OK, COST

JOB COST FOR ACCOUNT SUITAB TERMINAL 41
WED, JAN 05 1983 8:56 AM BATCH RATES USED
7 CONNECT MIN AT \$ 0.00/HR \$ 0.00
309 CPU SECONDS AT \$ 45.60/HR \$ 3.91
23 DISK SECS. AT \$ 3.60/HR \$ 0.02
TOTAL COST \$ 3.94

OK, COMO --END

SCHOOL TRUST FUND LANDS in State Parks and Waysides

Park	Acres	%/Park	<u>Facilities</u>
Bear Head Lake	1,252	28.6	road, trail
Father Hennepin	6.5	2.1	trail
Glacial Lakes	35.23	2.6	trail
Gooseberry Falls	40	2.4	trail
Itasca	1,613.76	5.3	road, trail
Jay Cooke	80	0.7	none
Judge Magney	800	17.7	none
Lake Bemidji	273.83	16	trail
Little Elbow	40	1.3	none
McCarthy Beach	384.95	15	trail
Mille Lacs Kathio	400	3.7	trail
Nerstrand Woods	460.29	36	campgrounds, service court, picnic area, trail, residence
Savanna Portage	2,969.5	18.8	trail , portage
Scenic	1,195	73.2	service area, 2 campgrounds, beach, picnic area, boat ramp, road, trail
Schoolcraft	166.2	56.3	residence, service area, campground, boat landing, picnic area, road, trail
Waysides	acres	%/Park	<u>Facilities</u>
Caribou Falls	40	45.5	no development
Cross River	600	23.4	no development
TOTAL	10,357.26		



- A. There are approximately 215,000 acres of land within the statutory boundaries of A State Parks and Waysides. There are 10,357.26 acres of trust fund land in these units or approximately 4.8%. There are also approximately 20,000 acres of private lands remaining within these units or approximately 8%.
- B. The management direction for State Parks and Waysides is found in Minnesota Statutes 85.011 and M.S. 86A.05, subdivisions 2 and 3. These two statutes are the basis of the park policies.

The statutory boundaries for State Parks are referenced under M.S. 85.012 Subdivision 1.

C. The history of trust fund lands in parks is vague at best. Legislation establishing parks is silent when it comes to trust fund lands. Trust fund lands have been placed in parks through land exchanges and they have also been condemned and acquired.

In 1950, 460.29 acres of federal land in Nerstrand Woods State Park were exchanged for trust fund land.

In 1963, 1679 acres of private land in Savanna Portage State Park were exchanged for trust fund land.

In 1964, 160 acres of private land in Judge Magney Stat Park were exchanged for trust fund land.

Presently it is proposed to exchange 320 acres ofprivate land in Scenic State Park for trust fund lands.

In 1978, discussions were held with LCMR on a proposal to use acquisition moneys which they had oversige on, to acquire trust fund land. The decision was made to concentrate on private lands, since they contributed the most serious threat to the existing public investment in the park system.

In 1979, 1794 acres of Trust Fund lands valued at 239,000 dollars were acquired through condemnation at St. Croix State Park. These lands were acquired when it was determined that all the acquisition money appropriated for that biennium would not be needed for private lands and it was an opportunity to eliminate all trust fund lands in the park.

The 1982-83 request for acquisition moneys included authority to use 20% of the appropriation to acquire trust fund lands. To date, no trust fund land has been acquired. It is the policy of the Division to acquire the most threatened lands within the parks first. It is felt that there is little or no threat of incompatible development on trust fund lands.

Park acquisition is on a willing seller basis so action must be taken quickly when private lands are available to prevent incompatible development within a park.

D. Historically lands within state parks have been managed for public recreation and education with a preservation type attitude toward resource management.

With the passage of the Outdoor Recreation Act in 1975 (M.S. 86A) direction was given and goals set for the management of the renewable resources. The act directs the management of renewable resources to preserve in the parks, a representation of Minnesota at the time of Pre-European settlement.

The natural forces which controlled plant communities have been altered and mans activities also have impacted the vegetation in all state parks. Since plant communities are constantly changing, active management is necessary in some cases.

Modern Management techniques are now being implemented to control the changing of plant communities. The most dominant natural force was fire. To simulate the impacts of fire in timber stands, they are logged and the slash burned. Many of the timber stands identified for logging are on trust fund lands. Revenue generated from these timber sales will be placed in the permanent school trust fund.

E. RELEVANT ISSUES

Compensation of the Trust Fund

There are six possible ways by which the trust fund could be compensated for the trust fund lands within State Parks. Each will have impacts both on the trust fund and existing park programs.

I. Condemn and acquire all the trust fund lands within State Parks and Waysides. Assuming that these lands averaged \$500 per acre in value, about \$5,178,500 would be needed. These moneys would have to be appropriated by the legislature. Preferably these moneys should be separate from normal park acquisition appropriations. If not, the Division of Parks and Recreation would be hard pressed to acquire the existing private lands within park boundaries. There approximately 20,000 acres of private land yet to be acquired. Since they can only be acquired from willing sellers, moneys must be available. If the money is not available, there is nothing to stop the new owners from using the lands in a way which would be incompatible with the park and may in fact threaten the existing public investment in the park.

- II. The State Park system could lease the lands from the trust fund. Leasing would not require as large an appropriation, but in the long run, would be more costly than acquisition to the State Park System. It would be more profitable to the trust fund in the long run since they would still own the land and its value would more than likely increase. Assuming a \$500 per acre value for the land and a 5% value lease rate (standard rate for state land), \$258,925 would be needed annually to pay the trust fund There would need to be a legislative appropriation for these moneys. If no appropriation is made, the moneys would have to come from the park's acquisition or maintenance and operations budgets. The result of such an action would be not acquiring available land or a reduction in service across the park system.
- III. Pay the trust fund a portion or all of the income derived from facilities on trust fund land. There are three parks which have such facilities on trust fund lands. Their income for F.Y. 82 was \$40,120. These funds are presently dedicated to the park maintenance and operations fund. This income doesn't include permit sales since the permits are good for all parks.

- IV. Pay the trust fund a percentage of non-permit income equal to a percentage of the which is trust fund land and a percentage of the permit income equal to the percent of trust fund in the park system. In F.Y. 1982, this would have been \$77,245 non-permit income and \$63,778 permit income equalling \$141,024. This income is presently dedicated to the park maintenance and operation fund. Loss of this revenue would result in a cut in services in the park system or an increased general fund appropriation would be needed.
- V. Deleat trust fund lands from unit boundaries. This may be possible in some units. It would require carefull planning but 10 of the 17 units have already been planned without such a criteria. It may not be feasible to replan these parks, since a considerable amount of public money has already been spent on facilities based on these plans. On the unplanned units, elimination of trust fund land can be a criteria of the planning. The exclusion of these lands would depend on their location to the remainder of the unit and its existing facilities.
- VI. Not acquire the trust fund lands at this time and delay acquisition until the state's financial situation is in better condition. This would delay reimbursement to the trust. The legislature would have to appropriate additional moneys from the general fund to education to cover the loss in income from the trust.

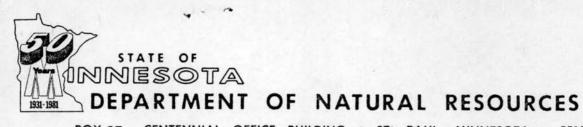
F. Conclusion

Whichever option is chosen, the funds necessary will have to come from the general fund. If additional funds are not appropriated, there will be a reduction in service across the park system or available private lands will not be acquired increasing the chance of incompatible development inside of state parks.

The best approach to this situation would be to delete trust fund lands from the boundaries where possible and seek specific funding to acquire the trust fund lands from the legislature.

		\$500/acre			\$200/acre		
Park Options	\$/acre	Total	% Annual Return	\$/acre	Total	% Annual Return	
Acquisition	500	5,178,500	NA	200	2,071,400	NA	
Lease (5%)	25/year	258,925	5%	10/y	103,570	5%	
Facility	3.87/year	40,121	0.8%			1.9%	
Percentage	13.62/year	141,024	2.7%			6.8%	
Forestry Incom	ne (2)						
In S. F. O. S. S. F.	1.41/yea		253,849 939,834	0.3% 0.2%		0.7% 0.5%	
Total Trust Fu Income (3)	und 1.81/yea	ar 4,	580,923	0.4%		0.9%	

Ford 11/19/82
 Waren 12/82
 Gross Income



BOX 37 , CENTENNIAL OFFICE BUILDING • ST. PAUL, MINNESOTA • 55155

DNR INFORMATION (612) 296-6157

June 17, 1981

FILE NO.	

Mr. Eldon Stoehr Legislative Auditor Office of the Legislative Auditor Veterans Service Building 1st Floor West Wing St. Paul, Minnesota 55155

Dear Mr. Stoehr:

Your draft audit report entitled "A Review of the Department of Natural Resources Operation and Management of the Permanent School Fund" (June 1981) includes serious factual errors and completely ignores numerous facts which are necessary to a proper evaluation and review of this complex subject. These flaws are so pervasive that it appears as if the audit team either failed to carefully research the subject or constructed the report to justify a preconceived conclusion.

This latter alternative particularly concerns me. At the entry conference, members of the audit team stated their view that the management of the Permanent School Fund included trust fund lands (which, incidentally, are not part of the fund contrary to the implication of the title of the draft report) should be subjected to some review external to the Department of Natural Resources. This conclusion was made before the audit had begun - that is, before the audit team even knew what kind of external review, if any, now exists and what the performance of the Department as manager of the trust fund lands has been.

Specifically our review disclosed the following major weaknesses in the draft audit report:

The audit report ignores the existence and key role of express constitutional and legislative objectives for the management of trust fund land. The auditors failed to realize that the trust fund land is neither the Permanent School Fund nor part of the Permanent School Fund, and that constitutional and statutory mandates relating to the management of trust fund lands are separate and distinct from those relating to the management of the Permanent School Fund. Specifically, the investment provisions of Article 11, Section 8, apply to the Permanent School Fund, not trust fund land. Pursuant to the principles laid down in applicable constitutional and statutory provisions, the DNR has consistently striven to secure the maximum long-term economic return from trust fund lands consistent with sound environmental and natural resource conservation and management principles. Furthermore, the Department has established policies for management of various income producing resources principally timber and minerals, which are completely consistent with this overall objective and are equally applicable to trust fund lands as to other classes of land under DNR administration.

Mr. Eldon Stoehr -2-June 17, 1981 The sale of state land is not "haphazard". On the contrary for many years the DNR has pursued a policy of not selling substantial acreages of trust fund, as well as other, lands. This policy has proven to have been an extremely wise choice, since the value of trust fund lands have increased at least tenfold since the 1930's. Lands that are sold are those which have been carefully reviewed and have been determined not to have significant long-term timber, mineral or other natural resource values. However, the Department has recognized . that it is time to review this policy and has requested and received nearly \$500,000 from the 1981 legislature to do a complete state land suitability analysis and develop a policy and a long-term plan for the adjustment of state land ownership, including sale of such lands where that is the best management alternative.

- Since 1973 new leases of existing lakeshore lots have been prohibited by statute. So far as existing leases are concerned, the DNR has made a real effort, in the face of strong opposition, to bring historically low lease rates into line with current land values. Specifically, rents have been increased from a flat \$25.00 per lot in 1973 to an average of \$150 per lot in 1981. Rentals are now based on a percentage of the appraised value of the land and, contrary to the allegations of the audit report, leases now require reappraisal every five years. Finally, we question the assertion that the state has lost an estimated \$250,000 per year as a result of below market value rentals. This figure is based on the unsubstantiated assumption that lakeshore lots leased by DNR are equivalent in average value to lots leased by the United States Forest Service.
- No interest on trust fund land receipts has been lost to the State. Receipts from all sources are invested. At most, interest on trust fund receipts has been credited to the general fund. The Department believes that to the extent this has occurred the interest should be recovered from the general fund by the Commissioner of Finance who has the statutory responsibility for investment of the Permanent School Fund.
- The draft audit report grossly exaggerates the extent to which trust lands have been devoted to non-income producing uses and ignores the fact that in nearly all cases where this has occurred, such as state parks, it has been the result of legislative action. Many of the DNR managed units mentioned do not imply a limitation of the income producing uses of the land. This is particularly true of state forests which are managed on multiple use principles providing for both mining and timber production as well as other uses. (Also, the inclusion of trust fund lands in state forests is expressly permitted by Article 11, Section II of the Minnesota Constitution). In State parks, state wildlife management areas, and public accesses where income producing uses are limited, the DNR has consistently tried to compensate the permanent school fund through condemnation of the trust fund lands. In fact, during the 1981 session the Department sought and received authority to spend up to 20% of its land acquisition funding for parks and public accesses to condemn trust fund lands. Moreover, the DNR has a long history of condemning trust fund lands in wildlife management areas having expended almost \$1,000,000 for this purpose alone.

June 17, 1981 Mr. Eldon Stoehr -3-These are significant defects in the audit report, but an even greater failing is the unsupported assertion that there is a danger that DNR will not responsibly manage the vast peat and mineral resources of the trust lands. There is not one shred of support for this supposed danger. In fact, the DNR has been a leader in identifying these resources and encouraging their development. This leadership has been asserted in the face of a decade of public opinion unfavorable to mineral development. The Department's work in securing favorable taconite, iron ore and copper-nickel leases has well served the permanent school fund as has its recent development of copper-nickel, uranium, and peat policies. The Department's performance in the area of mineral management has been outstanding and deserves praise rather then the sort of baseless attack contained in the draft report. Inexplicably, the report fails completely to recognize, much less evaluate, the performance of the two major income producing programs, namely mineral and timber management. The performance of both contradicts the major conclusion of the report that DNR has not adequately managed trust fund lands. For all of these reasons we believe the draft report must undergo a thorough review and revision before it is put in final form. To assist in this effort the department has prepared the attached report in response to the audit report and to provide supplemental information on the management of trust fund lands. It should be noted that the attached report is not to be considered an exhaustive report on the subject because of time constraints. At the exit conference, we requested that we be provided a month to respond to the draft audit report which was developed by the audit team over a period of several months because of the complexities of the subject and inherent problems that we saw with the report. Therefore, this report has been generated from existing information over a period of 8 working days and a substantial body of additional information is available. We would be pleased to discuss this with you at your convenience. Yours truly, Joseph N. Alexander Commissioner of Natural Resources att.

INTRODUCTION

This report has been prepared in reply to the draft report concerning management of the trust fund lands and the financial management of the Permanent School Fund transmitted to the Commissioner's Office on June 3, 1981.

The Department wishes to raise several questions concerning the conclusions reached in the report; however, in general, the report appears to reflect a preconceived point of view and does not reflect an adequate effort of research and documentation. In an effort to clarify the report, the DNR has undertaken to provide substantial additional information beyond that developed and utilized by the audit team. Where feasible and prudent, new information has been generated to help illustrate and document key points.

The Department welcomes the opportunity to comment on the draft report.

It is certainly in the best interests of the public to have future policy development and program action directed by an accurate and complete summary of the status of the trust fund lands and their management.

The general tone of the report appears to advocate the present sale of all school trust fund lands while retaining mineral rights. Most states, soon after admission to the U.S., sold their trust lands at nominal prices, in whole-sale fashion, or distributed them less profitably among the counties; and the proceeds were sometimes dissipated or squandered or lent to other funds and never replaced. Minnesota on the other hand, established a perpetual fund that is to be preserved inviolate and undiminished, and the interest and dividends arising from the fund are distributed to the different school districts. (Minn. Const. Art. XI, Sec. 8).

¹John Stone Pardee. "The Children's Heritage. The Achievement of the Minnesota Trust Fund and How it Came About," (1931) p. 16.

In the 1800's and early 1900's, large amounts of school and swamp trust land were sold. The agricultural lands in the southern counties of the state were the lands purchased by the settlers. The northern counties contained land which the settlers did not consider to be valuable and it is these counties today that still have large acreages of school trust fund lands. Around 1920 the sales of land were reduced and attention was directed to timber and mineral values and receipts.

MANAGEMENT OBJECTIVES

Contrary to the allegations of the Office of the Legislative Auditor, we believe that a substantial body of objectives exists for the management of the trust fund lands. While the department has never clearly placed all of these "objectives" into a single document, they are embodied in the Minnesota Constitution, a significant body of legislative acts, etc. which clearly sets forth the "objectives" for the PSF lands.

The Department of Natural Resources, as trustee for the citizens of this state for the management of these lands, has been an active participant in the development of these "objectives" thru the legislative process. As can be attested we have historically been an advocate for wise management of the trust fund lands. While we have not always agreed 100% with enactment of various legislative acts affecting trust fund lands, we, as an administrative agency in state government, have a responsibility for effective administration of the laws enacted.

The Minnesota Constitution establishes basic "objectives" for the management of trust fund lands. The Constitution provides that trust fund lands can only be sold at public sale, exchanged, or be included in school or state forests. The public sales of trust fund lands must be held in accordance with

Naws enacted by the legislature; the exchange of these lands must be conducted in accordance with laws enacted by the legislature and with the unanimous approval of the governor, attorney general and the state auditor; and the inclusion of trust fund lands in state forests occurs through laws enacted by the legislature.

The Constitution provides that, within the limitations of the law, the state shall secure the maximum return on the <u>funds</u> arising from the sale of trust fund lands. The legislative auditor's report misinterprets this provision and argues that the goal of management is to "maximize the return on the PSF lands." It is important to recognize the separation of the management of the fund from the management of the land. Land management does not have the same legal restrictions as does the PSF management and separate laws direct the management of the trust fund lands. The Constitution and the legislature have imposed specific and far-reaching restrictions on the sale and use of trust fund lands, and these laws do not always result in a short-term monetary return.

The Minnesota Legislature, from the beginning, has enacted numerous laws regarding state-administered lands, including trust fund lands. Early laws established minimum prices per acre, provided that the lands with the greatest value be sold first, provided that lands most valuable for timber not be sold until the timber had been sold, and reserved the mineral rights on all trust fund land sold.

A brief review of the Minnesota Statutes shows the following legislative directives concerning state-administered lands:

- -the creation and management of state forests (M.S. C.89).
- -the sale of state timber (M.S. C.90).

the leasing of minerals (M.S. C.93). -the leasing and rental of lands and natural resources (M.S. Sec. 84.415, 84.63 and 92.50). -the creation of state parks, monuments, recreation reserves and waysides (by legal description) (M.S. C.85). -the prohibition against the sale of lands bordering on watercourses (M.S., Sec. 92.45 - enacted in 1923). -the prohibition against leasing of cabin sites (M.S. 92.46 - enacted in 1973). -the establishment of wilderness areas (M.S. Sec. 84.43). -the preservation and protection of wild and scenic rivers (M.S. Secs. 104.31-.40). These laws establish the objectives for the overall management and use of the trust fund lands. In addition, the Department has established numerous rules and regulations and the Department administrative structure allows for appropriate delegation of the Commissioner's powers to carry out established objectives. Policies and objectives are established and are consistent with the directives received from the Legislature. Formal written policies are developed for specific programs and the mineral and timber policies are of particular concern to the management of trust fund lands to produce revenue. The Department of Natural Resources manages the trust fund lands in accord-

The Department of Natural Resources manages the trust fund lands in accordance with the directives of the Minnesota Constitution and the Minnesota Legislature. Thus, some divisions of the DNR manage some trust fund lands to increase the monetary yield to the PSF while other divisions manage some trust fund lands to preserve their unique characteristics, as directed by statute.

The Division of Minerals and the Division of Forestry, in accordance with legislative direction, seek to maximize the yield to the PSF in their mineral leases and timber sales. Both divisions have full time economists whose continual goal is to maximize yield.

The Parks and Recreation Division and the Fish and Wildlife Division, in accordance with legislative direction, seek to preserve and protect areas with outstanding scenic, recreational, natural, historical, scientific and similar values. In fact, the Fish and Wildlife Division acquires land with funds raised through license fees, that have these valuable qualities.

The DNR often will play a significant role in the enactment of laws affecting trust fund lands. For example, the iron ore and taconite lease form is specified in Minnesota Statutes, Sec. 93.20. This lease form must be followed except for certain items in the limited circumstances where negotiated leases are authorized. The DNR was actively involved in the improvement of leasing procedures and terms.

The legislature, in 1941, established the legal structure for the issuance and administration of mineral leases including the lease rates, term of leases, lease approvals and the actual form of the lease. The legislation provided for the issuance of 50-year leases with the approval of the State Executive Council at a base royalty rate for state owned taconite of approximately 15¢ per ton of concentrates or pellets. The University of Minnesota had advised the legislature that the base rate should not exceed 10¢ per ton; the Department argued that it should be much higher. No provisions for escalation of the royalty rates due to changes in the economy were provided until the lease form was amended by the legislature in 1951. Accordingly, a large amount of

the state taconite resource was leased during the 1940's as authorized by the 1941 legislature and thus many companies secured 50-year leases without any escalation clause on the royalty rate. The department is still having to live with these early leases at low royalty rates and will have to until the 1990's.

In 1957, based on arguments by the mining industry that the development of taconite processing technology had used up a significant portion of the 50-year state taconite lease term, the legislature enacted a law providing for a 25 year extension of these leases. The extension law would have continued the 15¢ base royalties for the extended period. However, the Department convinced certain legislators to amend the proposed bill on the floor of the legislature to authorize the Department, with the approval of the Executive Council, to renegotiate the royalty rates for the extended period. As a result, extended taconite leases have a royalty rate in the \$2.20-\$2.40 range per ton of concentrates, in 1980 dollars., subject to further escalation due to inflation. The PSF and other funds will, therefore, receive a 15 fold increase in royalty yield during the extended period. Most of these increases will become effective in 1991.

A quick review of the history of the constitutional and legislative directives in regard to the trust fund lands shows the continuous policy of the state to preserve valuable interests for future generations while at the same time looking out for the current generation. The continual increase in the value of land, the new discoveries of minerals in areas not previously explored and the increase in the value of timber easily show that it is not the best or even a wise policy to dispose of all the trust fund lands as soon as possible.

The auditor's draft has identified revenue maximization as the only purpose of the trust fund land management. This goal as stated, should be considered in light of several conflicting factors that are relevant to the need to maximize revenues from the management of public lands.

Revenue maximization from Natural Resources requires careful consideration of an appropriate long-term strategy. Decisions to buy, sell, or develop natural resources must be carefully considered since depletion rates of non-renewable resources and productivity rates of renewable resources will have great effect on the monetary return. Current projections show rising demand for most natural resources and consequently, price increases in real terms are expected. Undeveloped resources are becoming more valuable over time and their values are increasing in excess of inflation.

Past decisions by the legislature and by the DNR administration have reduced the disposal of trust fund lands. The wisdom of this policy is now evident in light of dramatically increasing land and resource values. The present trend appears to reflect a leveling off of the value increases, however, this may be temporary due to the current state of the economy. Comparable rates of return by the investment of the PSF have not been observed and by policy capital growth does not occur in the PSF because all interest is appropriated. Capital growth for the PSF has been very significant for the lands and resources that have been retained in public ownership. Contributions to the total welfare of the state occur whenever industrial development and expansion of the tax base results from greater use of the natural resources. Since the public lands play an important role in such contributions, there has been considerable interest in development of long-term resource strategies and policies that will improve the economy. The public lands contribute to

this development and through public ownership, the state has been able to affect its own destiny through land management policy. The public land ownership has also allowed a certain amount of long-term stability and changes in resource development have been used to ameloriate significant social problems such as the development of taconite to provide employment in depressed areas of the state. This development has also provided greater tax revenues to assist the support of schools. This situation has stimulated the legislature to direct the utilization of trust fund lands and resources for purposes that are not necessarily going to produce maximum rates of return but to provide an optimum resolution to many issues and to implement an optimal long-term strategy. Certainly the auditor's office should be aware of these factors in the development of public policy and although relevant at the time of establishment of the State Constitution, the goal to maximize revenue should be viewed in light of the many competing uses and factors that affect decisions applied to trust fund lands and their management.

Although these trust fund lands were granted to the State for the purpose of producing revenues for the PSF this purpose has been constrained by subsequent actions of the Congress, the State legislature and by other social, economic and environmental considerations. This certainly brings into question any attempt to ignore contemporary needs that may be provided by PSF lands in addition to revenue generation.

Maximization of revenue can only be done if all other considerations are ignored. While the trust fund lands do and have provided substantial revenues to the PSF reasonable pragmatism should be expected in viewing the situation. Much of the trust fund land has limited capacity to generate revenues due to the nature of the land and resources on the land. This natural constraint certainly has impacted the ability of the total land grant to provide revenues.

In addition, revenues can only be generated from resources of value and during Minnesota's economic history there have been periods when much of the remaining trust fund land base was considered without significant value. As recently as 20 years ago, it was common to find tax forfeited lands being sold for as little as \$1.00 per acre and much of the trust fund land had similar value.

Recent trends in resource use and consumption have greatly changed the picture. What was once considered to be valueless swamp land is now being identified as a valuable energy resource. In addition, the continued exploration of Minnesota's minerals resource has continued to identify greater opportunities for mineral development where prior information showed limited value.

Trust fund lands serve the total public benefit by providing recreational opportunities, wildlife habitat, environmental protection, and other general benefits that enhance the quality of life in Minnesota. These other benefits are sought after and often direction has been given through the political process. Various users and interest groups actively represent their views and desires. Without the Department of Natural Resources to actively promote the PSF considerations, the other values and users will receive priority in legislative and administrative decisions. Since revenue maximization is often only possible through development or sale of the land, any conflict with other resource uses must be resolved. In the evolution of philosophy and policy applicable to state lands, there have been many examples of legislative direction to consider contemporary needs in the use of trust fund lands. The auditor must certainly be aware of these changes in emphasis and it seems appropriate that the draft report should have addressed these important constraints on present management.

In summary, the overall objective that emerges from a review of these provisions is to secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles. While the lands as a body must be managed to produce income, more production is not the sole answer. Other values and benefits from the lands can and should influence the management of the lands. Nevertheless, it is recognized that trust fund lands cannot be permanently devoted to a non-income producing use. Consistent with this objective, not every acre of trust fund land need produce short-term income. Nor should the opportunity to realize a quick profit because of high land values necessarily dictate sale of trust fund lands. The suggestion in the draft report that a continuous evaluation should be completed to determine the profitability of selling land or holding it for long-term appreciation should recognize that the value of certain lands for timber and mineral production will preclude their sale. Other lands may well be sold provided that their contributions to the many various objectives are considered.

POLICIES AND PROCEDURES TO MAXIMIZE THE REVENUE FOR THE PSF

Mining and logging are the two activities which have provided the bulk of the corpus of the PSF in the past (80% and 12% respectively). There is no doubt that these two sources of revenue will continue this dominance in the future. The policies governing the mineral and timber management programs of the DNR are clearly designed to maximize revenue to the PSF and they have so functioned. Yet the draft audit report completely ignores these policies and focuses instead on the relatively less significant revenue sources of land sales, lakeshore leases and land exchanges. It appears as though evaluation of mineral and timber policies were so studiously avoided because this would not have supported the sweeping conclusion that "DNR has not established adequate policies and procedures to maximize the revenue for the PSF."

The permanent trust fund was reported to contain a total of \$283,414,034 as of June 30, 1980 by the state treasurer. The contributions to this fund from the sale of land, leases and sale of timber and minerals are summarized in Table 1. It is evident that minerals development has contributed the major share of the contributions to the fund and the total contributions are greater than the present value of the trust. Current revenues continue to grow and as future development of minerals, peat, and harvest of timber occurs, it is expected that these revenues will rise dramatically. As land values continue to rise, the revenues due to leases, easements and utility licenses will also continue to rise. The revenues for the last five fiscal years are summarized in Table 2.

Mineral Management

The mineral policy of the state, as reflected in its statutes, encourages the development of mining with due consideration of the effects of mining in the environment. Commencing with the first iron ore mining laws in 1889, the state has been issuing mineral leases. Today approximately 50% of the land leases for iron ore and taconite are school trust fund lands; and approximately 80% of the lands currently under lease for copper, nickel and associated metals are school trust fund lands.

Throughout the 1940's and 1950's, the state held public sales of iron ore prospecting permits, and 247 of those permits were converted to iron ore or taconite iron ore mining leases. Six copper-nickel lease sales were held from 1966-1973. In total, 2,143,923 acres of state-administered mineral rights were offered for copper-nickel leasing; and this resulted in the issuance of 1,044 leases covering 425,313 acres. A copper-nickel lease sale has not been held since 1973 due to a Copper-Nickel Study of the EQB; we are currently working on amending the royalty provisions of the state copper-nickel lease and hope to have a lease sale within the next year. A large percentage of these lands offered for leasing have been permanent school fund lands.

As previously indicated, significant revenues have been generated for the PSF thru the mineral leasing activities of the department. Although ignored by the auditors, it should be noted that the future revenues from mineral leases will be substantially increased thru actions already taken by DNR and the Executive Council.

The 1941 taconite lease law provided for a royalty rate of 5¢ per ton of crude ore without an escalation clause. As authorized by the 1957 lease extension law which authorized the extension of taconite leases for an additional 25 year period, the department conducted extensive negotiations with a number of mining companies on new lease terms to be effective during the extended lease period. These negotiations resulted in recommendations by the DNR to the Executive Council for the extension of a number of taconite leases. The Executive Council, after extensive evaluation and review, approved the terms of these lease extensions. Of interest is the fact that in one instance the Executive Council chose to hire a consulting economist to review and evaluate the DNR recommendation and he subsequently concurred in the DNR recommendation without change. All of these lease extensions provide for substantially increased royalty rates, special advance royalty payments, favorable escalator clauses, guaranteed performance requirements, etc. These lease extensions, which begin becoming effective in 1991, will significantly increase income to the PSF.

To illustrate the significance of these previous actions, the following two examples are provided. The Erie Mining Company lease extensions were approved by the Executive Council in 1968. During the extended term of these leases, the state will earn over \$245,000,000 (based upon 1981 dollars which will be escalated). The mineral lands involved are: university trust lands, 46%; school trust lands, 28%; and tax forfeited lands, 26%. The Ontario Iron Company lease extensions were approved by the Executive Council in 1973. During the extended term of the leases, the statewill earn over \$260,000,000. The mineral lands involved in this instance are: school fund lands 92%; and tax forfeited lands, 8%. Thus, thru these two actions, the PSF is expected to earn in excess of \$300 million. This income, generated in 25 years, is greater than the total amount earned to the PSF from all sources since statehood.

- 13 -

In addition to the increased income from taconite leases, significant income potential exists from copper-nickel and associated base metals and Minnesota's vast peat resources. While the auditors mentioned the magnitude of the copper-nickel resource in a 13 square mile area of the Gabbro Complex in northeastern Minnesota, they failed to recognize the potential royalty income that will be generated for the PSF from existing state mineral leases in that area. If economics permit the development of the proposed AMAX project in that area, the income from these state leases is expected to yield approximately \$250,000,000 (1979 dollars) during the remaining term of these leases.

In determining the tracts of land which will be subject to a public lease sale, the Department considers the areas which the DNR determines as having mineral potential and the areas requested for leasing by mining companies. The DNR makes every attempt to select areas in which more than one company wishes to lease in order to generate competitive bidding and, therefore, higher royalty to the trust funds and tax-forfeited funds. Also, once an area is proposed for leasing, the individual tracts are reviewed by the division's environmental section, other divisions of the DNR, State Historical Society, Pollution Control Agency, Natural and Scientific Area Advisory Committee and others. Environmental groups are also notified and given an opportunity to review.

The Department has completed a peat policy and management study which is now being implemented. This study has been presented to the various natural resources and energy committees of the legislature for their review. The Department has an active peat inventory program, funded primarily by federal funds. This data is being "computerized" and mapped. Although this inventory is still in progress, figures are available from MLMIS computer printouts and show that approximately 25% of the peatland is trust fund land (see Table 7).

During the past ten years, the Division of Minerals has established and subsequently expanded a unit specifically for Evaluation of Mineral Potential. This unit provides better imput in land management decisions (including trust fund lands) and promotes exploration and mining development of these lands. The mineral potential evaluation unit has developed geochemical techniques, added geophysical capability, expanded analytical laboratory capability and, beginning this year, has secured funding for and implemented a test drilling program to assist in evaluating the mineral rights administered by the Department. A limited drilling program this year in a largely unexplored area of the Duluth Gabbro Complex indicated the presence of some mineralization which warrants further exploration and has brought about interest from companies not previously exploring in that area. The work of this unit will be further expanded during the forthcoming biennium.

Four years ago, the Division of Minerals was also able to establish a mineral economist position to assist the mineral lease section on a full time basis. Cash flow computer models have been established, in cooperation with the Department of Revenue, to help evaluate mineral potential and possible mine development proposals, review royalty rates and royalty escalation methods, etc. The entire focus is to keep abreast of mineral economics and increase yield from managed lands. Changes in the national and world iron/steel industry, such as locations, markets, technology, energy sources and shifts toward iron ore imports, can affect Minnesota's future role as an iron ore-taconite producer and therefore yield to the PSF and other funds from royalties. Since iron ore and taconite are and will continue to be the major source of revenue to these funds, the DNR and Department of Revenue proposed development of an Iron Ore Econometric Model. This request was supported by the Governor, but was not funded by the legislature and we will continue to seek support for such a model.

- 15 -

This mineral policy, the methods in determining areas to offer for sale, and the continuing work of our evaluation section shows the DNR has "objectives" in managing school trust fund lands and does not have "haphazard" sales of land. All of this was explained to the auditor, but the report does not reflect this fact.

Forest Management

The Division of Forestry has been delegated the responsibility for timber management of trust fund land. The Division is responsible for the protection and management of the forest resources and has supervised all timber sales and forest development on trust fund lands. The sale of timber has returned substantial amounts of money to the PSF and funding for the Forestry program from the general fund and federal sources has increased by 100% since 1979. This will result in substantial improvements in the return to the PSF by timber production both in the short and long run.

The recent efforts by the Department to take difficult steps to improve timber revenues have been ignored by the auditors. During the last session, a major revision of the timber sale laws was accomplished which represents the resolution of a major controversy that has been going on for the last several years. This legislation will enable DNR to sell a greater percentage of timber at public auction and to reduce it's reliance on informal (non-competitive) timber sales. Since public auction sales generally produce higher stumpage prices than informal sales this will have a significant positive impact on PSF revenue. During the last ten years the base stumpage rates have been raised by 350 percent.

The Division of Forestry has recently embarked on a greatly expanded program of management intensification. A full time staff economist has been employed and the program plans have been developed using revenue generation and rates of return as planning criteria. Priorities are being established using assessments of potential productivity and the program has been designed to bring the state owned forest land into production using the best possible economic alternatives.

Base stumpage rates have been increasing, particularly in the last three years. The Division has used market evidence in establishing these rates and has made great progress in generating a greater return from the sale of the state's timber in spite of the opposition expressed by timber producers and the processing industry. Recognition and appreciation of this situation is not evident in the draft report and should be considered prior to any final actions.

Sale of Land

The original grant of trust fund lands total 8,293,702 acres. Of that total, 5,772,702 acres have been sold or transferred for other uses in the past and these sales have provided \$25,775,578 to the PSF. Current land sales have been nominal since policy direction toward retention of these lands has been established by the Legislature. Several laws have been passed to establish this policy. For example, M.S. 85.011 prohibits the sale of land inside state park boundaries. M.S. 92.45 prohibits sale of land bordering public waters and the continued appropriation of funds for the land acquisition has reflected a policy of expansion of state ownership.

Land sales have continued to be a part of DNR management and recent sales are summarized in Table 5. The public has the opportunity to request lands be put up for sale and when such requests are received the request is reviewed and a decision is made. All refusals of these requests have been made because the Department has determined that these lands are needed for public purposes or protection of the PSF goals. Also, many of these requests are for the better land that are more productive and assessible and are the lands that have the greatest value growth and will return a significant rate of return to the PSF.

The sale of state land is not "haphazard." On the contrary, for many years the DNR has pursued a policy of not selling substantial acreages of trust fund, as well as other, lands. This policy has proven to have been an extremely wise choice, since the value of trust fund lands have increased at least ten-fold since the 1930's. Lands that are sold are those which have been carefully reviewed and have been determined not to have significant long-term timber, mineral or other natural resource values. However, the Department has recognized that it is time to review this policy and has requested and received nearly \$500,000 from the 1981 legislature to do a complete state land suitability analysis and develop a policy and a long-term plan for the adjustment of state land ownership, including the sale of such lands where that is the best land management alternative.

The allegations that the Department has not adequately supported legislation to correct the preposterous terms for the sale of trust fund lands are erroneous. This past session, the Department actively supported House File 253 and the failure of the bill to pass causes great concern. In the absence of reasonable interest rates, it appears inadvisable to proceed with sale of trust fund lands that are continuing to increase in value. The issue of the length of contract is perhaps better viewed in combination with the interest rate. If interest rates may be set at current money market levels, the long-term return to the PSF would be significantly greater than the relatively low return recently produced by investment of the PSF. Since the bill will be available for review once again, there will be an opportunity to modify the bill if desired. Perhaps the auditor may use his influence to provide this information to the legislative committees. The Department will continue to support this change in legislation and it will certainly benefit the PSF.

Leasing Lakeshore Land

The Department has had a long standing program of leasing lakeshore for private use. This program was authorized by M.S. 92.46, and as directed by M.S. 92.46 Sub. 1A, which was enacted in 1973, no more of these leases may now be issued. The auditor's statement of a potential loss of \$250,000 needs additional clarification. The estimate was derived for the total lakeshore leasing program not for the trust fund lands only. The DNR currently leases 1,602 sites for this purpose on trust fund lands (Table 2).

The DNR is concerned that the rates for these leases are too low. However, it is important for everyone to realize that this has been an historical problem that DNR has been actively resolving in stages since the early 1970's. At that time, the rates were raised from an average of \$25 to \$150 per lease and even more significantly the DNR began to establish rentals on the basis of appraised value rather than as a flat rate. At that time, reappraisals were required every ten years upon renewal of the lease. These very significant changes met strong opposition both in and out of the legislature. The current lease rate is determined at five percent of the appraised value per year and the last appraisal

was made in 1975. Lease renewals made subsequent to 1980 will all require reappraisals at five year rather than ten year intervals. Clearly the appraisals need to be reviewed and adjusted and the department has begun to take steps to review the situation and begin the appraisal process using the accelerated program approved by the LCMR.

Finally, we question the assertion that the state has lost an estimated \$250,000 per year as a result of below market value rentals. Their figure is based on the unsubstantiated assumption that lakeshore lots leased by the DNR are equivalent in average value to lots leased by the United States Forest Service.

Special uses and leases other than lakeshore leases, are granted routinely by the Department for a wide variety of purposes. Lease rates are determined for these purposes using market evidence where feasible and all grants of easements and licenses are made using an appraisal of current market value (Table 2) Special considerations are made in this program for trust fund lands and no leases or easements are granted without payment of the appraised value. Share-crop agreements are not allowed on trust fund lands in an effort to continue the policy to generate revenue for the PSF. The special use revenues have been summarized in Table 2 along with other revenue sources. It is clearly evident that the leases and special permits generate substantial revenues to the PSF each year.

Land Inventory

The DNR maintains records and inventories of all leases, land sales, timber sales and mineral leases. The auditor's report has identified the <u>lack of an</u> inventory as a major problem when in fact, these records are available. These

records are summarized in the tables contained in this report and should provide the information required to evaluate the rate of return.

The DNR has had most of the land records available in a computer format for about ten years. Additional effort to put more of these records on computer files is an ongoing part of DNR management and an accelerated project has been funded for the next biennium to put all leases, licenses and easements on the computer.

The auditor was provided with much of the information necessary to determine the rate of return and we have provided some additional information in this report. The attached tables concerning minerals were specifically provided to the auditor and should have been adequate for the needs of the report. A close review of the tables attached to this report is recommended and, if additional information is required, the department will be able to provide it on a timely basis.

Land Exchange

The draft report ignores several complexities that limit the usefullness of land exchanges as a means of increasing PSF revenue.

The DNR has had a land exchange program for many years and currently has many individual cases in the process. The goals of the land exchange program are varied and efforts are made to use this program to consolidate ownership and gain efficiencies where possible. Most of the current land exchanges have been initiated at the request of the private sector and they are all approved by the land exchange board as specified by Art. XI, Sec. 11 of the Minnesota Consititution when completed.

The Department has established a task force to review present land exchange procedures and to make recommendations to improve the process. The task force report is near completion and the land exchange program should be greatly improved as a result.

The draft report has recommended that land exchange be used to consolidate ownership to improve management efficiency. While this is an important consideration, there are also advantages in having a dispersed ownership for minerals and wildlife purposes and consolidation per se cannot be the overriding goal of public land management. Consolidation will not reduce administrative costs for the PSF, since the PSF does not support administrative costs and consolidation will not improve revenues of the PSF.

The department has recognized the need to accelerate the land exchange program and has received approval from LCMR for more support for this program. The Department has also initiated discussions with Lake County and the Chippewa National Forest to begin work on a general program of land exchange. Other land management agencies and industrial owners will also be contacted in the future as the accelerated land exchange program developes. A continuing problem exists in respect to "exchanges" of trust fund land for tax forfeited land. The constitution only allows exchange of trust fund land with the federal government and private landowners. Substantial tax forfeited land areas administered by the counties are found mixed within the trust fund land. Recent legislation authorized "transfers of title" between state and local governments in the same manner as land exchanges except that trust fund land must be condemned free of the trust before the transfer can be made. Therefore the usefullness of this new mechanism has been seriously limited by the lack of funding for this purpose.

The draft audit report goes to great lengths in an attempt to demonstrate that the PSF is not getting a fair return from the trust lands and that the DNR is not adequately compensating the PSF for the use of trust fund lands. Underlying this assertion by the auditor is the erroneous assumption that trust fund land can take care of itself without any overhead costs whatsoever. In addition, the auditors were apparently unaware that the trust fund is not paying its fair share of the costs of managing and developing the trust fund lands. The PSF, in fact, is heavily subsidized by the general fund. For example, since fiscal year 1976 the general fund and other non-PSF funding sources have contributed over \$20 million for mineral and forestry management and development (see Table 3). In that same period, the PSF has contributed \$500,000 per year to forest management and development and none to minerals. Several attempts have been made to rectify this situation, however, an opinion of the Attorney General dated October 11, 1955 has determined that none of the costs of managing minerals may be paid for out of the PSF. As a consequence, administration costs are not paid by the fund receiving the benefits and in fact, the PSF has effectively been subsidized by the general fund. programs the DNR does Except for certain forestry not receive any of its operations or management costs from PSF funds. One-third of the mineral rights managed by the Department are trust fund lands and one-fourth of the peat lands are trust fund lands. Applying these percentages to the budget of the Division of Minerals of the DNR, for the period of 1976-1980, shows that the management costs for PSF minerals rights entirely funded by the general fund, were \$2,200,000. The mineral management program has provided a yield of \$7,575,146 for the same five-year period of 1976-1980 (Table 3).

³This is in fact a conservative figure since 50% of the existing iron ore and taconite leases and 80% of the existing copper-nickel leases are trust fund lands.

FINANCIAL MANAGEMENT OF PSF

A review of the alleged errors in financial management shows that the state has not lost investment income and that all stated losses are recoverable. Also, complexities of the statutes combined with accounting requirements for handling advance royalties should be more fully understood by the auditor and reflected in the report.

The workpapers of the Legislative Auditor contain a section wherein the auditors attempted to calculate the amount of interest income lost to the Permanent School Fund (86 Fund) because receipts were not transferred from "clearance" or "suspense" accounts in a timely manner. Their calculation of the lost interest income is summarized as follows:

	Estimated Amount of Lost Interest Income (Based on 21 month period)	Fund Earning Interest
State Forest Suspense Accounts (Permanent School Fund) (Permanent University Land)	\$223,654	20 Fund
Mining Advance Royalty	174,510	61 Fund
Advance Royalty	8,882	10 Fund
Total	\$407,046*	

^{*}Based on annual percentage rate for short-term investments of 12.4%.

It is important to note that the receipts deposited by the Department into the 20, 61 and 10 Fund "clearance/suspense" accounts during the period in question actually <u>earned</u> an estimated \$407,046 of investment income for the State of Minnesota. It is wrong to conclude that the State lost this significant amount of investment income because receipts were not cleared in a timely manner. In fact, all investment income generated from receipt deposits in the 20, 61 and 10 Fund "clearance/suspense" accounts is credited to the State's General Fund. An argument could be

made from a financial management viewpoint that the receipts held in the "suspense/ clearance" accounts yield higher average rates of return than those contained in the Permanent School Fund. The average rate of return on short-term investments at the beginning of this year was 12.40% compared to 8.39% for the Permanent School Fund. Based upon the preceding, it can be alleged that the Permanent School Fund will receive a higher rate of return from the receipts held in the "suspense/clearance" accounts rather than in direct deposits.

Because the investment income generated from the "clearance/suspense" accounts for the period in question has not been credited to the Permanent School Fund, the Department takes the position that the Permanent School Fund should receive the interest earned from the General Fund to allow for reimbursement. It should be noted that the amount of interest calculated by the auditors is an estimate only and that the actual Permanent School Fund earned interest may differ.

In order to ensure that all future investment income generated from receipt deposits made to the State Forest Suspense Accounts is realized by the Permanent School Fund, the Department has initiated action to move the suspense accounts directly into the Permanent School Fund.

As you are aware, M.S. 16A.125, Subdivision 5, Paragraph 2, states: "As soon as practicable after the end of each fiscal year, beginning with the year ending June 30, 1956, the commissioner of finance and the state treasurer shall distribute the receipts credited to said <u>state forest suspense account</u> during such fiscal year as follows:

(1) The total costs incurred by the state for the purposes aforesaid during such fiscal year and certified as hereinbefore provided shall be transferred to a special account to be known as the state forest development account.

- 25 -

"(2) The balance of said receipts shall be transferred to the state trust funds concerned in accordance with their respective interests in the lands from which the receipts were derived."

In past years the Department has followed the provisions of this statute and prepared required cost statements for State Forest Trust Fund lands and initiated accounting documentation on an annual basis to effect the transfer of receipts as outlined in paragraphs (1) and (2). However, as we have earlier mentioned, the State Forest Suspense Accounts are currently established in the 20 Fund rather than in the 86 Fund, and therefore investment income generated on these receipts is credited to the General Fund. It is again important to note that the State of Minnesota has not lost investment income because of this accounting problem. Beginning July 1, 1981, the Department has requested that the State Forest Suspense Account Fund designators be changed from the 20 Fund to the 86 Fund. This will allow for direct credit of all investment income to the Permanent School Fund.

In regard to the mining advance royalty interest "loss" to the Permanent School Fund, the statement is deceptive and does not explain, as we did to the auditor, the reason why over a million dollars could not be distributed to the appropriate funds. This account, more properly called a clearance/suspense account, is basically established for the special advance royalty payment.

The need for a special advance royalty holding account arose because the Erie Mining Company and Ontario Iron Company Extension Agreements (which were negotiated between the state and mining companies and approved by the State Executive Council) provide for special advance royalty payments. These royalty payments cover a combination of tax-forfeited leases, school and swamp trust fund leases and university trust fund leases. Since the special advance royalty payments are recoverable against future shipments of ore, it is not possi-

- 26 -

ble to distribute the money to the proper fund until shipping occurs.

The quarterly minimum rental payments and royalty payment are also deposited in this account. However, through November of 1980, it is our understanding that these payments were transferred to the appropriate fund within 10-14 days after deposit.

Therefore, approximately \$180,000 of the \$407,046 of investment income appears to be mostly attributable to the amounts of special advance royalty payments which could not be transferred to an appropriate fund. Although this account deserves special treatment so that the represented funds receive their representative share of interest, the Department of Finance appears to have classified this (61 Fund) money as "state treasury funds not currently needed," and the interest is credited to the General Fund.

Accounting mechanisms necessary for determining interest distribution from the special advance royalty holding account will have to be devised and discussions have been held on this matter. The department is vitally interested in insuring that the appropriate funds are credited from this account but, as stated earlier, the transfers cannot be made because the appropriate distribution is unknown until future ore shipments are made. We wish to point out however, that the special advance royalty provisions is again illustrative of the department's continuing efforts to maximize revenues by accelerating payments to the state on future ore shipments.

As we indicated in our recent response (December 5, 1980) to your audit of the financial management operations of the Department for fiscal year 1980, we concurred that there are weaknesses in the financial management functions for a number of reasons: staffing, accountabilities, training, policy/proce-

dure development, complexity of funding sources and revenue accounting, accounting structure, etc. The Department is prepared to take actions necessary to correct these deficiencies and has already initiated the following actions:

I. Established a DNR Financial Management Task Force consisting of Geri Benting, Assistant Commissioner, Department of Finance; Dave Johnson, Agency Coordinator, Department of Finance; Dick Krueger, Agency Controller, Department of Finance; Gene Gere, Assistant Commissioner, Department of Natural Resources; and Wayne Frankenberg, Financial Management Bureau, Department of Natural Resources.

Task Force Objectives

- A. Continually review and further define actions to be taken for improvement in financial management.
 - B. Review status of actions.
- C. Determine assistance that the Department of Finance can provide in undertaking specific actions both from within the Department of Finance and other state agencies.
- D. Establish professional fiscal/personnel liaison positions in each division.
 - II. Established a Revenue Accounting Task Force chaired by Joe Kurcinka,

 DNR Research and Policy Section; John Bouthilet, DNR Revenue Accounting

 Supervisor; representatives from DNR divisions that generate substantial revenues; and Department of Finance representative, Roy Muscatello.

Task Force Objectives

A. Evaluate the current revenue accounting system.

- Determine current deficiencies, problem and unmet needs.
 Use of Regional Depositories
 Advance Royalty Accounting
 Clearance Accounts
 Accrual Accounting
 Game and Fish Fund Statements
 Function of Financial Management Bureau

C. Recommend a new revenue accounting system for implementation.

7. Control of Receipts

III. Approved an interim reorganization of the Revenue Accounting Section in the Bureau of Financial Management and placed the function under the direct control and supervision of an Accounting Officer, Principal.

We believe these management actions will greatly strengthen our financial management function.

COMPENSATION FOR USE OF TRUST FUND LANDS

The draft audit report grossly exaggerates the extent to which trust lands have been devoted to non-income producing uses and ignores the fact that in nearly all cases where this has occurred, such as state parks, it has been the result of legislative action. Many of the DNR managed units mentioned do not impose a limitation on the income producing uses of the land. This is particularly true of state forests which are managed on multiple use principles which provide for both mining and timber production as well as other uses. Also, the inclusion of trust lands in state forests is expressly permitted by Article 11, Section, 11 of the Minnesota Constitution. In state parks, state wildlife management areas, and public accesses where income producing uses are limited, the DNR has consistently tried to compensate the Permanent School Fund thru condemnation of the trust fund lands. In fact, during the 1981 legislative session, the department sought and received authority to spend up to 20% of its land acquisition funding for parks and public accesses to condemn trust fund lands.

been a routine part of DNR management. One long standing problem has been the dedication of trust fund lands to non-income producing uses particularly for State Park purposes. Land use allocations of this nature are made by the legislature. State parks, state forests, trail and Wild and Scenic Rivers are designated by statute. The 9,717 acres of trust fund lands found inside the 200,000 acre state park system were therefore designated for that use by the legislature. In 1978 DNR requested legislative approval to acquire these trust fund lands for park purposes. This proposal was reviewed by the LCMR in November of 1978 and the request was denied. As already stated, this request was recently renewed with better results.

Additional efforts to condemn the trust fund lands in other units have been an ongoing part of DNR management particularly for trust fund lands inside wild—life management areas where the department has condemned 47,626 acres at a cost of almost \$1,000,000. Trust fund lands have been acquired as funds permit and several such condemnations are in process at the present time (Table 6). One noteworthy example is the condemnation of almost 33,000 acres in Voyageurs National Park at a cost of \$4.7 million.

The Department has long recognized its reponsibility to the PSF and has made repeated efforts to compensate the PSF for these non-revenue uses. Since the Department must utilize general fund monies to reimburse the PSF, there is often considerable reluctance by the Legislature to appropriate general fund or bonding monies to compensate the PSF. Such appropriations do not increase the total return to the public but simply increase the amount of a particular dedicated fund. The legislature has also been reluctant to increase dedicated funds or the dependence of programs on dedicated funds. Consequently, the apparent answer to these conflicts in priorities and land use must be resolved by the legislature. The Department does not have the authority to resolve this problem. The Department suggests that this general issue should be brought before the appropriate leadership of the legislature and the DNR would strongly support such efforts.

The auditor erroneously implies that trust fund lands found inside state forests and wildlife management areas do not generate revenue to the PSF. The use of trust fund lands for state forests is expressly authorized by the constitution and trust fund lands inside state forests are managed to provide revenue for the PSF and during FY 1980, \$1,130,727 was earned from the sale of timber inside state forests on trust fund lands (Table 2). Likewise, lands within wildlife management

areas are still available for revenue generating purposes such as timber sales and agricultural leases. Even mining is not precluded in wildlife management areas.

Approximately 100,000 acres of trust fund lands are found within the BWCA.

Again the DNR has recognized the need to consider the PSF in this issue and has actively participated in the efforts to resolve this problem. Testimony has been provided to appropriate committees and the review done by the constitutional study commission accepted many DNR recommendations. Subsequent actions by the U.S. Congress and the Minnesota Legislature have established the present policy.

During the late 1960's the Senate Natural Resources Committee held hearings to review the Department's management of trust fund lands in the BWCA. The Division of Minerals testified regarding its mineral management - pointing out the wilderness recognition, protection policy and management guidelines that had been established for that area by the State Legislature throughout the years. The Department pointed out that if the Legislature wished a different policy for the area, such as mineral development, etc., they should, in the face of existing legislative guidelines, enact legislative direction for such a change. No changes were enacted at that time, but in the mid-1970's the Legislature enacted a prohibition of mining on state lands and the use of state lands in connection with any other mineral development within the BWCA except in the case of a National Emergency. In regard to the trust lands involved it was felt by the Legislature that the reservation of 100,000 acres of the 2,500,000 acres of trust lands for development in the case of a national emergency was not a violation of the trust or bad management practice. It should also be remembered that unless the state wishes to relenquish sovereign authority in that area of the state to the Federal Government, it needs a proprietory base for many of its arguments. Also, the latest federal Act related to the BWCA gave

it wilderness status under the 1964 Wilderness Act. This Act provides that such wilderness areas can periodically be expanded in 5,000 acre increments. If the state wishes standing for meaningful input on such expansions, which could involve additional trust fund lands, it appears advisable to retain these trust lands within the BWCA.

The trust fund land acreage of nearly 100,000 acres in the BWCA will no longer be available for timber harvest; however, the improved development of trust fund lands outside the BWCA should off-set this loss of revenue generation. The end result of this expanded and improved forest development will be greater revenues to the PSF when future harvests of timber on trust fund lands occur that are the product of the current intensification program. The total amount available for this purpose will be over \$40,000,000 during 1979 through 1990.

In summary, the department has long recognized the need to compensate the PSF when trust fund lands are permanently dedicated to non-income producing uses. It has a record not only of raising the issue with the legislature, but also of being instrumental in compensating the trust in an amount of almost \$6 million (see Table 6).

CONFLICTING PRIORITIES

The draft audit report argues that since DNR has responsibilities other than management of the trust fund lands to produce income, the danger exists that it may attempt to further these non-income producing purposes to the detriment of the PSF. Of course the problem of reconciling conflicting goals is inherent in multiple use land management. It is just as real when the choice is between wildlife management and the development of trails as it is between the preservation of a stand of virgin pine or its harvest. The key to handling these kinds of potential conflicts is to recognize them and to develop policies which give clear standards for their resolution. This has been done in this case. As previously pointed out, the department has attempted to consistently adhere to the policy of compensating the PSF for lands permanently dedicated to non-income producing uses. Therefore, the report has not demonstrated that this potential has ever operated to the detriment of the PSF. Although there are trust fund lands in some state parks and other units within which some uses are restricted, the department is making progress toward condemning these remaining lands free of the trust. Also, the various existing mechanisms of external review, as will be subsequently discussed, operate to insure that this course of action continues.

Natural resources allocation decisions are inherently controversial. Land use allocations and decisions must resolve the many conflicts that emerge and that are expected when such decisions are made. The original land grants to the state were made without consideration of the resources and values found on the land and consequently the lands granted represented a full variety of Minnesota's resources. Nearly all of the land suitable for agriculture has been disposed of in the past and the remaining lands are suitable for a variety of uses. Classification of these remaining lands according to their best use for the benefit of the public has historically provided guidance for the DNR's management program. Land

classification has attempted to designate which lands should be retained in public ownership and also what these lands are capable of being used for.

Many factors are considered in land classification efforts. The major emphasis has been placed on the characteristics of the resources found on these lands and although not directly stated the consideration of the PSF has been given considerable weight in this process primarily through the traditional thought and philosophy of the decision making of the DNR. Several instances could be cited where decisions to retain land were based on the long-term welfare of the trust fund, particularly where minrals are concerned. Such decisions to retain these lands have proved to be wise and will ultimately result in the goal to maximize the return to the PSF. Land classification then should be considered as one of the primary vehicles where the total benefits to the public and the PSF are considered.

Reference to apparent problems with the DNR land classification have been taken out of context in the draft report. The University of Minnesota study cited in this document was initiated by the DNR to compare the DNR and county land classification procedure with computerized land use models developed and used by the University for land use planning.

The reference to apparent problems with the DNR land classification procedure appears in the introduction to the fiscal study report document and does not in fact reflect the final study findings. The final study findings state that a comparison of the University computerized land use maps with the DNR completed classification maps "reveal they are nearly identical" as to classification. The "final maps show that 97.5% of all DNR-administered parcels maintain the same classification in both schemes" (page 13 DNR Land Use Classification Report - #5018, Minnesota Land Management Information System, July, 1975). This indicates that the

DNR classification system was conducted in a consistent, systematic and standardized manner such that the results could be replicated through use of sophisticated computer modeling techniques employed at the University.

The Department, in fact, is continuing to upgrade its land classification abilities. The DNR has just received a legislative appropriation to undertake a more sophiticated land classification and allocation process during FY 82-83 which will determine the best allocation and use of DNR administered lands.

EXTERNAL OVERSIGHT

The draft report concludes that "DNR should not have total responsibility for the Management of the PSF" and that "some management oversight be established outside the organizational structure of the Department of Natural Resources". First, the DNR does not manage the PSF; it manages the trust fund lands, which are not part of the PSF. Secondly, extensive external oversight of the management of the trust fund lands already exists.

The legislature, through numerous legislative acts, review of requested reports, and hearings has provided review and policy direction on all lands, trust fund lands included. The roles of the State Executive Council, Land Exchange Board and State Board of Investment also show that the Department is not the "sole decision making authority" over the use of PSF lands and that there is "outside oversight." Thus, we question the auditor's recommendation, not because we believe there ought to be no oversight, but rather because existing oversight is adequate.

Although the DNR has the primary responsibility for the supervision and management of trust fund lands, there is considerable oversight and review of decisions made by the DNR. All land exchanges are approved by the land exchange board, which consists of the Governor, Attorney General and State Auditor. The respective Natural Resource Committees and appropriation committees review DNR policy and programs and the accelerated natural resource programs are funded and provided overview by the LCMR. All leases and sales of PSF lands or products thereon are approved by the Attorney General. In addition, select committees of the legislature have been formed to review specific issues and the Legislative Auditor audits

DNR programs routinely. These various oversight authorities have ample opportunity to review DNR decisions and to provide consideration for the PSF in their oversight actions. As stated previously, the DNR has brought PSF issues to the attention of these oversight authorities with mixed results.

The Executive Council must approve any timber sale in excess of \$20,000. The Executive Council consists of the Governor, Lieutenant Governor, Attorney General, Secretary of State, and State Auditor. The State Board of Investment, which manages the permanent school fund, consists of these same state officials (except for the Lieutenant Governor). This oversight by the constitutional officers of the state has been ignored entirely by the auditor's report.

The State Executive Council also has an active role in the management of the state-administered mineral lands. The issuance of any mineral lease requires their approval. In addition to making the final decisions on issuing leases, the Council questions and analyzes information provided by the DNR, and requests certain actions be taken (such as our current project of amending the royalty rate provisions of the state copper-nickel lease).

Once the existence of these several means of oversight is recognized, another weakness of the auditor's report becomes apparent. Because the report ignores existing oversight mechanisms altogether, it avoids the tough questions of what is wrong (or right) with these m-chanisms and what changes, if any, are needed.

These questions must be carefully analyzed, for an ill-considered change could very well weaken rather than strengthen the management of the PSF lands. Yet the report is silent in this regard.

TABLE 1

PERMANENT SCHOOL FUND ACCUMULATED VALUE OF INCOME BY SOURCE

	Dollars
Minerals Leases	130,334,627
Occupation Tax	105,259,675
Timber Sales	34,833,253
Land Sales, Leases, etc.	25,775,578
TOTAL	296,203,133

TABLE 2
PERMANENT SCHOOL FUND REVENUE BY SOURCE

Source	Number of Actions	School Trust Acres	FY 76	FY 77	FY 78	FY 79	FY 80	TOTAL
Leases:	Current	Current			Do1	lars		
Agriculture	148	5,142.54	11,652	11,489	12,449	14,660	15,606	65,856
Commercia1	147	4,296.42	14,620	11,887	15,969	18,939	17,937	79,352
Earth Materials	59	558.33	41,189	60,045	104,409	87,859	119,035	412,537
Governmental	115	*	1,138	. 1,475	2,476	2,578	2,249	9,916
Hunting Cabin	54	27	685	705	685	650	2,995	5,720
Lakeshore	1,602	801	64,735	96,025	146,913	190,172	206,783	704,628
Miscellaneous	197	939.62*	9,032	8,265	7,836	5,069	5,211	35,413
Squatter	78	44.43	1,600	1,625	1,610	1,560	465	6,860
Bill Board	0	0	0	0	0	86	0	86
Peat			738	738	738	1,276	320	3,810
Utility Licenses	2,970	*	97,320	23,865	57,247	135,339	51,817	365,588
	5 year Total	5 year Total						
Easements	146	449.29	4,376	9,571	5,811	6,882	20,914	47,554
Land Sales	6	2,476.35	83,189	46,918	63,591	36,187	53,563	283,448
Condemnations	**	ick	348,269	1,550	82,888	440,693	215,038	1,088,438
Timber Sales Inside State Forests	dele	tek	917,476	1,154,401	1,015,900	1,157,449	1,130,728	5,375,954
Mineral Leases	**	**	1,053,409	1,318,185	1,131,946	1,403,688	2,667,918	7,575,146
Miscellaneous Revenue	107	**	342	106	452	820	1,960	3,680
TOTAL			2,649,770	2,746,850	2,650,920	3,503,907	4,512,539	16,063,985

^{*} Incomplete as documents contain many thousands of descriptions being used as rights-of-way for snowmobile, ski, utility and access purposes.

^{**} Incomplete data-numbers not available at present.

TABLE 3

PERMANENT SCHOOL FUND LAND

ADMINISTRATION, PROTECTION, AND MANAGEMENT COSTS BY DISCIPLINE

Discipline	FY 76	FY 77	FY.78	FY 79	FY 80	TOTALS
			DOLL	ARS		
Minerals	302,280	302,280	535,058	540,937	529,167	2,209,722
Forestry State Forest	1,771,584	2,168,059	2,500,000	2,512,065	4,299,824	13,251,532
Outside State Forest	1,008,418	1,237,604	1,420,952	1,430,120	2,447,705	7,544,799
TOTALS	3,082,282	3,707,943	4,456,010	4,483,122	7,276,696	23,006,053

STATE OF MINNESOTA DEPARTMENT OF NATURAL RESOURCES DIVISION OF MINERALS

STATE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
Wanless	School .	2038	E½-SÉ, 16-58-19	9/07/46	1996	Shenango Furnace Company	Shenango Furnace Company
Woodbridge	School	2054	E ¹ ₂ -NE, 16-58-19	6/09/48	1998	Shenango Furnace Company	
Prindle	School	2043	S ¹ ₂ -NE, 36-59-18	9/08/47	1997	United States Steel Corp.	Shenango Furnace Company
Prindle	School	2044	W12-SE, 36-59-18	9/08/47	1997	United States Steel Corp.	The state of the s
Pilot	School	2046	SW-NE & NW-SE, 2-58-18	10/01/47	1997	United States Steel Corp.	corp.
Hanna	School	2047	NW-SV, 2-58-18 & NE-SE, 3-58-18	10/01/47	1997		corp.
Carson Lake Res.	Swamp	2039	NW-SE, 10-57-21			United States Steel Corp.	United States Steel Corp.
Weggum	C			9/07/46	1996	The Hanna Mining Company	The Hanna Mining Company
	Swamp	2100-N	NE-SE, 6-57-20	9/01/76	1988	Hanna Ore Mining Company	Hanna Ore Mining Company
Coons	School	2098	E ¹ 2-NW, 16-58-17	8/05/66	1991	Pittsburgh Pacific Co.	Pittsburgh Pacific Co.
Shiras (Part)	School	2102-N	SW-SW, 16-58-19	9/01/76	1983	Rhude & Fryberger Inc.	Rhude & Fryberger Inc.
Frantz	School	2103-N	NW-NW, 21-58-19	9/01/76	1983	Rhude & Fryberger Inc.	Rhude & Fryberger Inc.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
SAINT LOUIS COUNTY

Fund	Lease No.	Description	Issued	Expires		Presen	t Lessee	Open	rating	Comp	any
Univ.	3001	₩2-NE & SE4, 14-59-14	7/01/41	*2016	Erie	Mining	Company			7 11000	
Univ.	3002	S ¹ ₂ -NW, 14-59-14	7/01/41	*2016		,,,		n		,,	"
Univ.	3003	SW4, 14-59-14	7/01/41	*2016	"	11	ii —		,,	"	n
Univ.	3004	SE-NE, E ¹ ₂ -SE, SW-SE, S ¹ ₂ -SW, 15-59-14	7/01/41	*2016		n	"		n	"	"
Univ.	3005	SE-NW, 15-59-14	7/01/41	*2016	**	**	**			11	
School	3006	SW4, 16-59-14	7/01/41	*2016	••	**		**	,,	**	11
School	3007	SE4, 16-59-14	7/01/41	*2016	80	**				**	11
Univ.	3008	NE' & NE-SE, 22-59-14	7/01/41	*2016	11						11
Univ.	3009	E-2-NE, 21-59-14 & NW4, 22-59-14	7/01/41	*2016	"	,,	"	11		"	
Univ.	3010	NE' & E'2-NW, 23-59-14	7/01/41	*2016	"	11	80			11	11
Univ.	3011	W12-NW & SW14, 23-59-14	7/01/41	*2016 -	11	"	90	11	11	11	11
School	3012	SE4, 36-60-14	7/01/41	*2016	"	11		11	"	"	11
Univ.	3038	SE-SE, 20-59-14	10/01/45	*2020	**	11	26			,,	
Univ.	3068	₩ ₂ -NW, 28-59-14	9/10/48	*2023	**	"	11	. 11	11	,,	
School	3069	N ¹ ₂ -NW, 36-59-15	9/10/48		11	,,	10	11	"	11	"
School	3070	S ¹ ₂ -NW, 36-59-15	9/10/48	*2023	**	"	"	"		.,	
School School	3071	N ¹ 2-NE, 36-59-15	9/10/48	*2023	- 11	,,	**			"	
School	3072	N ¹ ₂ -SW, 36-59-15	9/10/48	*2023	11	11					,,
	Univ. Univ. Univ. Univ. School School Univ. Univ. Univ. Univ. School Univ. School School School	Univ. 3001 Univ. 3002 Univ. 3003 Univ. 3004 Univ. 3005 School 3006 School 3007 Univ. 3008 Univ. 3009 Univ. 3010 Univ. 3011 School 3012 Univ. 3038 Univ. 3038 Univ. 3068 School 3069 School 3070 School 3071	Univ. 3001	Univ. 3001 W2-NE & SE4, 14-59-14 7/01/41 Univ. 3002 S12-NW, 14-59-14 7/01/41 Univ. 3003 SW4, 14-59-14 7/01/41 Univ. 3004 SE-NE, E12-SE, SW-SE, S12-SW, 7/01/41 Univ. 3005 SE-NW, 15-59-14 7/01/41 School 3006 SW4, 16-59-14 7/01/41 School 3007 SE12, 16-59-14 7/01/41 Univ. 3008 NE12 & NE-SE, 22-59-14 7/01/41 Univ. 3009 E12-NE, 21-59-14 & NW2, 22-59-14 7/01/41 Univ. 3010 NE12 & E12-NW, 23-59-14 7/01/41 Univ. 3011 W12-NW & SW12, 23-59-14 7/01/41 Univ. 3038 SE-SE, 20-59-14 7/01/41 Univ. 3038 SE-SE, 20-59-14 7/01/41 School 3012 SE12, 36-60-14 7/01/41 Univ. 3038 SE-SE, 20-59-14 9/10/48 School 3069 N12-NW, 28-59-15 9/10/48 School 3070 S12-NW, 36-59-15 9/10/48 School 3070 S12-NW, 36-59-15 9/10/48 School 3071 N12-NE, 36-59-15 9/10/48	Univ. 3001 W2-NE & SE4, 14-59-14 7/01/41 *2016 Univ. 3002 S2-NW, 14-59-14 7/01/41 *2016 Univ. 3003 SW4, 14-59-14 7/01/41 *2016 Univ. 3004 SE-NE, E42-SE, SW-SE, S42-SW, 7/01/41 *2016 Univ. 3005 SE-NW, 15-59-14 7/01/41 *2016 School 3006 SW4, 16-59-14 7/01/41 *2016 School 3007 SE4, 16-59-14 7/01/41 *2016 Univ. 3008 NE4 & NE-SE, 22-59-14 7/01/41 *2016 Univ. 3009 E42-NE, 21-59-14 & NW4, 22-59-14 7/01/41 *2016 Univ. 3010 NE4 & E42-NW, 23-59-14 7/01/41 *2016 Univ. 3011 W2-NW & SW4, 23-59-14 7/01/41 *2016 School 3012 SE4, 36-60-14 7/01/41 *2016 Univ. 3038 SE-SE, 20-59-14 10/01/45 *2020 Univ. 3068 W42-NW, 28-59-14 9/10/48 *2023 School 3070 S42-NW, 36-59-15 9/10/48 *2023 School 3070 S42-NW, 36-59-15 9/10/48 *2023 School 3070 S42-NW, 36-59-15 9/10/48 *2023 School 3071 N42-NE, 36-59-15 9/10/48 *2023	Univ. 3001 W=2-NE & SE=4, 14-59-14 7/01/41 *2016 Erie Univ. 3002 S=3,NW, 14-59-14 7/01/41 *2016 " Univ. 3003 SW=4, 14-59-14 7/01/41 *2016 " Univ. 3004 SE=NE, E=3, SW=SE, S=3,NW, 7/01/41 *2016 " Univ. 3005 SE=NW, 15-59-14 7/01/41 *2016 " School 3006 SW=4, 16-59-14 7/01/41 *2016 " School 3007 SE=4, 16-59-14 7/01/41 *2016 " Univ. 3008 NE=4 NE=SE, 22-59-14 7/01/41 *2016 " Univ. 3009 E=3-NE, 21-59-14 NN=4, 22-59-14 7/01/41 *2016 " Univ. 3010 NE=4 & E=3-NW, 23-59-14 7/01/41 *2016 " Univ. 3011 W=2-NW & SW=4, 23-59-14 7/01/41 *2016 " School 3012 SE=4, 36-60-14 7/01/41 *2016 " Univ. 3038 SE=SE, 20-59-14 7/01/41 *2016 " School 3010 SE=4, 36-60-14 7/01/41 *2016 " Univ. 3068 W=2-NW, 28-59-14 9/10/48 *2023 " School 3069 N=2-NW, 36-59-15 9/10/48 *2023 " School 3070 S=2-NW, 36-59-15 9/10/48 *2023 " School 3070 S=2-NW, 36-59-15 9/10/48 *2023 "	Univ. 3001	Univ. 3001	Univ. 3001 W ₂ -NE & SE ₂ , 14-59-14 7/01/41 *2016 Frie Mining Company Pickands Univ. 3002 Sł ₂ -NW, 14-59-14 7/01/41 *2016 " " " " " Univ. 3003 SW ₄ , 14-59-14 7/01/41 *2016 " " " " " Univ. 3004 SE-NE, E½-SE, SW-SE, S½-SW, 7/01/41 *2016 " " " " " School 3006 SW ₄ , 16-59-14 7/01/41 *2016 " " " " " " School 3006 SW ₄ , 16-59-14 7/01/41 *2016 " " " " " " School 3007 SE½, 16-59-14 7/01/41 *2016 " " " " " " Univ. 3008 NE½ & NE-SE, 22-59-14 7/01/41 *2016 " " " " " " Univ. 3009 E½-NE, 21-59-14 7/01/41 *2016 " " " " " " " Univ. 3010 NE½ & SE½-NW, 23-59-14 7/01/41 *2016 " " " " " " " Univ. 3011 W½-NW & SW½, 23-59-14 7/01/41 *2016 " " " " " " " " Univ. 3011 SE½, 36-60-14 7/01/41 *2016 " " " " " " " " School 3012 SE½, 36-60-14 7/01/41 *2016 " " " " " " " " Univ. 3038 SE-SE, 20-59-14 10/01/45 *2020 " " " " " " " " Univ. 3068 W½-NW, 28-59-14 9/10/48 *2023 " " " " " " " " School 3070 S½-NW, 36-59-15 9/10/48 *2023 " " " " " " " " "	Univ. 3001	Univ. 3001 W-Ne 6 SEX, 14-59-14 7/01/41 *2016 Erie Mining Company Pickands Mather 6 C Univ. 3002 Siz-NW, 14-59-14 7/01/41 *2016 " " " " " " " " " " " " " " " " " " "

^{*} Taconite Lease Extended

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires		Present	Lessee	Oper	ating Co	ompar	ny
	Univ.	3081	N ¹ ₂ -SW, 22-59-14	11/12/52	*2027	Erie	Mining	Company	Pickands	Mather	& Cc	ompany
	Univ.	3089	NE-NE & SE-NE, 14-59-14	11/12/52	*2027	11	п		"		11	11
	Swamp	3090	NW-NE & SW-NE, 28-59-14	11/12/52	*2027		. 11		n.	11	11	11
	Swamp	3091	NE-SE & NW-SE, 28-59-14	11/12/52	*2027	**	11	"	"	11	11	11
	School	3092	SW-SW & SE-SW, 36-59-15	11/12/52	*2027		"	"	11	11	"	n
	School	3093	NE-SE & NW-SE, 36-59-15	11/12/52	*2027	**	"	10	· ·	"	**	"
	School	3094	SW-SE & SE-SE, 36-59-15	11/12/52	*2027	**	11	**	11	**	11	11
	Tax F.	T-5001	Min. Rts. NW-NW, 14-59-14	10/01/43	*2018	"	"	"	. 11	"	"	11
	Tax F.	T-5003	Min. Rts. S ¹ ₂ -NW, 23-59-15	2/15/44	*2019	11	"	"			11	11
	Tax F.	T-5009	NW-NW, 29-59-14	3/01/45	*2020	"	**		11	u	11	11
	Tax F.	T-5010	Min. Rts. S½-SE, SE-SW,13-59-15	3/01/45	*2020	"	"		n	"	"	**
	Tax F.	T-5011	Und. 7/8 Min. Rts. SW-SW, 28-59-15 & Und. 7/8 NU-NW, 33-59-15	10/01/45	*2020	11	"	"		"	"	п
	Tax F.	T-5012	Und. 14/15 Min. Rts. N ¹ ₂ -SW, NW-SE, SW-NE, 15-59-14	10/01/45	*2020	**	"	11		"	11	u
	Tax F.	T-5013	Und. 3/16 Int. SE-SE, 22-59-15	3/15/47	*2022	11	"	·		••	11	
* Taconite Lease	Tax F.	T-5014	Und. 111/432 Min. & Min. Rts. & Und. 11/18 Surf. of NE-NE, Und. 1244/3456 Min. & Min. Rts. & Und. 96/3456 Surf. of NW-NE, Und Min. & Min. Rts. & Und. 170/720 SW-NE, Und. 102/432 Min. & Min. Und. 7/8 NW-SE, Und. 7/8 NE-SW,	Surf. of Rts. of SE-	*2022 -NE,	"	n	•		"	"	

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Pr	esent	Lessee	Opera	ating (Comp	any
	Tax F.	T-5016 Sublease	34/40 Min. Rts. of Wly. 400', SE-SE, 28-59-15, & 34/40 Min. Rts. N ¹ ₂ -NE & NE-NW, 33-59-15		1983	Erie Mi	ning	Company	Pickands	Mathe	. &	Company
	Tax F.	T-5032	Und. 7/8 SE-SE, 29-59-15	3/19/49	*2024	"	"				"	11
	Tax F.	T-5033	Und. 1/8 Lot 3(NW-SW),30-59-14	3/19/49	*2024		"		,		"	
	Tax F.	T-5034	Und. 117/432 Min. Rts. SE-NE, 29-59-14	3/19/49	*2024		**	n	, и		***	"
	Tax F.	T-5039	E ¹ ₂ -SE, 21-59-14	7/18/51	*2026	**	11				11	11
	Tax F.	T-5062-FN	Und. 1/16 Min. Rts. NE-SW, 23-59-15	12/19/60	2010	11	"	" .			11	••
Dunka River	Tax F.	T-5063-FN	Und. 1/3 Lot 1 (NE-NE),3-60-12	4/28/64	2014		"			"	"	11
Dunka River	Tax F.	T-5064-FN	Und. 1/3 NE-SE & SE-SE,34-61-12	4/28/64	2014	u	**		n i		11	**
Dunka River	Tax F.	T-5065-FN	Und. 32/72 Min. & Und. 42/72 Surf. of SW-SW, 35-61-12	4/28/64	2014	11	11	11		. 11	11	n
Dunka River	Tax F.	T-5066-FN	Und. 32/72 Min. E-2-NW,35-61-12	4/28/64	2014	11	00	00	00	10	**	n
Dunka River	Tax F.	T-5067 FN	Und. 1/6 Min. NE-SW, 35-61-12	4/28/64) 11/21/77)	2014	"	"	"		"	**	n
Dunka River	Tax F.	T-5068-FN	Und. 1/4 NE-SE & SE-SE,9-60-12	4/28/64	2014		**	"	11	10	**	11
	Tax F.	T-5070	E ¹ 2-NE ¹ 4, 28-59-14	11/12/52	*2027	11	**	"	11		"	"
**Smith	Swamp	2063-CT	SW-NW, 2-57-21	4/12/50	*2025	Ontario	Iron	Company	Pickands	Mather	&	
	School	3017	W12-SW, 9-58-19	7/01/41	*2016	"		**		11	n	"
	School	3018	NE-SW, 9-58-19	7/01/41	*2016	"	"	"		"	"	

^{*} Taconite Lease Extended ** Iron Ore lease converted to Taconite lease under Laws 1951, Chapter 546.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Pr	esent	Lessee		Opera	iting (Compa	any
	School	3019	S ¹ ₂ -SE, 9-58-19	7/01/41	*2016	Ontario	Iron	Company					Company
	School	3020	N ¹ ₂ -NE, 10-58-19	7/01/41	*2016	n	"	11		,	11	11	u
	School	3021	S ¹ ₂ -NE, 10-58-19	7/01/41	*2016	11	"	u	,	•	.,,	"	"
	School	3022	S ¹ ₂ -NW, 11-58-19	7/01/41	*2016		"	n .			"	,,	11
	School	3023	N ¹ 2-NW, 11-58-19	7/01/41	*2016	u	11	n			.,	11	n
	School	3024	S ¹ 2-NE, 11-58-19	7/01/41	*2016	"	"				***	"	11
	School	3027	E ¹ 2-NW, 16-58-19	7/01/41	*2016	tt	- 11	"			11	11	11
	School	3028	W ₂ -NW, 16-58-19	7/01/41	*2016	11	**	"	**		"	"	
	Swamp	3029	NW-NE, 8-57-21	7/01/41	*2016	11	**				"	**	
Madeira	School School	3030	W ₂ -NE, 36-58-21	7/01/41	*2016	at	11	00	11	ы	11	11	11
Madeira	School	3031	E ¹ ₂ -NE, 36-58-21	7/01/41	*2016	**	"	**	***		***	"	11
Pool	School	3032	E ¹ 2-SW, 36-58-21	7/01/41	*2016	"	n	"			. 11	"	
Pool	School	3033	W ¹ 2-SW, 36-58-21	7/01/41	*2016	· ·	"	"	"		"	"	n
Pool :	School	3034	W12-NW, 36-58-21	7/01/41	*2016	11	00	10	"		"	"	"
Pool	School	3035	E ¹ ₂ -NW, 36-58-21	7/01/41	*2016	**	**	"	**		"	"	
Pool	School	3037	SE½, 36-58-21	2/15/44	*2019	11	11		, 10		**	11	11
	School	3082	NE-SE, 8-58-19	11/12/52	*2027	11	11	n'	"		"		u ·
Yates	School	3083	SE-SW & SW-SE, 11-58-19	11/12/52	*2027	11	**	. "	"		"	"	n .

^{*} Taconite Lease Extended :

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Pr	esent	Lessee		Oper	ating	Compa	ny
Yates	School	3084	E ¹ 2-SE, 11-58-19	11/12/52	*2027	Ontario	Iron	Company		Pickands	Mathe	er & C	ompany
	School	3085	W ¹ 2-NE, 16-58-19	11/12/52	*2027		"	11		•			11
	School	3095	NW-SW & SW-SW, 11-58-19	11/12/52	*2027		"	"				11	
	Tax F.	T-5027	Und. 1/2 SW-NE & Und. 41/60 SE-NE, 13-58-20	3/19/49	*2024		"	n		"	"	n	11
	Tax F.	T-5035	Und. 7/8 E-NW, 10-53-19	6/13/50	*2025	"	**	"		. "	"	"	11
Lavinia	Tax F.	T-5073-N	Min. Rts. Lots 21 & 22, Block 15, Plat of Lavinia, together with streets & alleys attaching to lots upon vacation of plat. SW-SE, 25-58-21	6/11/80	1990	(Und. Pickand (Und. Ontario	75% In s Math 15% In Hibbí	el Corp. terest) er & Co. terest) ng Compa terest)		"	n	п	n
	School	3013	N ¹ ₂ -SW, 1-58-19	7/01/41	1991	United	States	Steel C	Corp.	United S	tates	Steel	Corp.
	School	3014	S ¹ ₂ -SW, 2-58-19	7/01/41	1991	"	"		"				"
	School	3015	SW-SE, 2-58-19	7/01/41	1991	"	"	n			. "	"	. 11
	School	3016	NE-SE, 2-58-19	7/01/41	1991	11	"	"	"	."	יו	"	"
	School	3025	N ¹ ₂ -NE, 11-58-19	7/01/41	1991	"	"	"	**	n	"	"	"
	School	3036	NW-NW, 12-58-19	7/01/42	1992	"	**		**		**	11	"
Wheeling	School	3049	SW-NW, 1-58-18	9/06/47	1997	"	"	••	**		**	"	n
	School	3050	Lots 1 & 2 (N ¹ ₂ -NE), 2-58-18	9/06/47	1997	11	**	"	**		"	n	
Part Hanna	School	3051	NW-SE, 3-58-18	9/06/47	1997	11	11	11	**	11	"		

^{*} Taconite lease extended

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
SAINT LOUIS COUNTY

								•					
Property	Fund	Lease No.	Description	Issued	Expires	P:	resent 1	Lessee		Оре	rating	Compar	ny
	School	3052	S¹ ₂ -SE, 5-58-18	9/06/47	1997	United	States	Steel	Corp.	United	States	Steel	Corp.
Prindle	School	3053	NW4, 36-59-18	9/06/47	1997	n	"	"	"		"	"	. "
Prindle	School	3054	N ¹ ₂ -NE, 36-59-18	9/06/47	1997	"		"	"_			"	11
Prindle	School -	3060	W ¹ ₂ -SW, 36-59-18	9/06/47	1997	n	"			n	"		11
Prindle	School	3063	E½-SW, 36-59-18	3/05/48	1998	11	"	•	"				n
	School	3055	SE-SW, SW-SE, 8-58-19	9/06/47	1997	11	**	**	**		**	11	**
Section 17	School	3056	NE-NE, 17-58-19	9/06/47	1997	11	10		. "	n		***	"
Section 17	School .	3057	W12-NE, 17-58-19	9/06/47	1997	11	11		11	**		"	11
	School	3058	Lot 2 $(S_{-2}^{1}-N_{-2}^{1})$, 18-58-19	9/06/47	1997	"		**	"		11	.,	
	School	3059	Lot 3 $(N_2^1-S_2^1)$, 18-58-19	9/06/47	1997	ıi	. 11	**		**	11	11	"
	School	3061	SW-NW, 4-58-18	2/25/48	1998	"	"	11	"	11	,11	· ·	- "
**Seville	School	2037-CT	N ¹ ₂ -SE, 10-58-19	7/10/46	1996	"	"						
	School	3075	SW-NE, 1-58-18	6/14/50	2000	11	11	11	10	11	10	11	"
	School	3076	SE-SE, 10-58-19	11/14/51	2001	11	11	90	10	11			"
	School	3077	SW-NE, 12-58-19	11/14/51	2001	"	**	- 11	tt	**	**	"	н
3	School	3078	SW-SW, 12-58-19	11/14/51	2001	"	**	11	00	***	11	"	

^{**} Iron Ore lease converted to Taconite lease under Laws 1951, Chapter 546.

Table 4-A

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 SAINT LOUIS COUNTY

Property	Fund	Lease No	Description	Issued	Expires	P:	resent 1	Lessee		Оре	rating	Compan	ıy
	Tax F.	T-5015	Und. Int. as follows: 3/4 SE-NW, 7/8 Lot 2 (SW-NW, 7/8 Lot 3 (NW-SW), 7/8 Lot 4 (SW-SW), 30-59-14	9/06/47	1997	United	States	Stee1	Corp.	United	States	Steel	Corp.
	Tax F.	T-5016	***Und. 34/40 Min. Rts. SE-SE, 28-59-15 & ****34/40 Min. Rts. N ¹ ₂ -NE & NE-NW, 33-59-15	9/06/47	1997	"	"	11	"	"		"	"
Adriatic	Tax F.	T-5021	W ¹ 2-NE, 30-59-14	3/21/49	1999	"	"	"	"	**	••	"	11
	Tax F.	T-5024	SE-NW & NE-SW, 34-59-18	3/19/49	1999	"	"	00	. "	10			
	Tax F.	T-5028	Und. 39/40 E'5-SE, 31-59-18	3/19/49	1999	"	.,	**	"	**		"	11
	Tax F.	T-5029	Und. 1/2 N½-SE, 32-59-18 & Full Int. NW-SW, 33-59-18	3/19/49	1999	11	**		**	n	"		11
	Tax F.	T-5030	Und. 1/2 SW-SE, 33-59-18	3/19/49	1999	11	11		00	11	11	11	н
	Tax F.	T-5036	NW-SE & Und. 17/32 NE-SE, 34-59-18	6/14/50	2000 -	"	"	"	"	"		"	ıı
	Tax F.	T-5037	SE-NW, SW-NE, 1-58-19	6/14/50	2000	11	**	**	**	**	11	"	
	Tax F.	T-5038	Lot 1 (NE-NE), 1-58-19	6/14/50	2000	***	80	11	00	"			"
	Tax F.	T-5060	Und. 7/8 E-2-SE, 29-59-14	11/15/57	2007	11	11	90	00	***	"	11	u
	Tax F.	T-5061	Und. 7/8 SE-SW & SW-SE,29-59-14	11/15/57	2007	"	**		11		"	. "	

^{***} Westerly 400 feet subleased to Erie Mining Company through 1983.
*** Entire ore body subleased to Erie Mining Company through 1983.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Pre	esent	Lessee			Ope:	ating	Compa	any
Peter Mitchell	School	3039	SW ¹ 4, 16-60-12	3/01/46	1996	Reserve	Minin	g Comp	any	Rese	erve	Minir	ng Com	pany
Peter Mitchell	School	3040	NW4, 16-60-12	3/01/46	1996		"	"				"		
Peter Mitchell	School	3096-N	W-2-NE, 16-60-12	12/01/66	2016	n	"	"				"		u .
	School	3088	NW-NW, SW-NW, 36-59-17	2/29/52	2002	Eveleth (Und. 3 Eveleth (Und. 6	38.983 Expan	%) sion C			.eth	Tacor	ite C	ompany
	Tax F.	T-5058	SE-SW, 19-58-17	2/29/52	2002	Eveleth (Und. 3 Eveleth (Und. 6	38.983 Expan	%) sion C		Evel	eth	Тасог	nite C	ompany
	Tax F.	T-5059	NE-SW, Lot 3 (NW-SW), 19-58-17	2/29/52	2002	Eveleth (Und. 3 Eveleth (Und. 6	38.983 Expan	%) sion C			eth	Tacor	nite C	ompany
Fay	Swamp	3064	Lot 1 (NE-NE), 6-58-17	3/05/48	1998 -	Inland S	Steel	Mining	Co.	Inla	ind f	Steel	Minin	g Co.
Sliver	Swamp	3067	Lot 1 (E ¹ ₂), 6-58 ¹ ₂ -17	9/12/49	1999	"	11	11	11		•	"	11	
	Tax F.	T-5006	Min. Rts. SE-SW & W-2-SE, 28-59-17	2/15/44	1994	***	11	"	**			11	"	u
Includes Allan	Tax F.	T-5031	Und. Int. as follows: $3/16$ Lots 1 & 2 (NW $\frac{1}{4}$), $3/16$ (SW-NE, 115/128 SE-NE, 31-59-17 and 395/512 SW-NW & NW-SW, 32-59-17	3/19/49	1999	11	"	"	"		•	•	"	ü
Ernie	Tax F.	T-5072-N	SW-SE, 32-59-17	10/10/79	1999		11	"	"		"	"	. "	"

Table 4-A

STATE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 ITASCA COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
* Hill Annex	School	374	SE4, 16-56-23	5/18/00- 5/19/50- 1/01/75	1989	J. & L. Steel Corporation	J. & L. Minnesota Ore Div.
* Hill Annex	School	378	NE ¹ λ , 16-56-23	5/18/00- 5/19/50- 1/01/75	1989		n n n n n
Wyman	Univ.	2011	SE-SW, 22-57-22	8/01/42	1992	Butler Brothers	The Hanna Mining Company
Buckeye	School	2012	W ₂ -NE, 36-56-25	10/01/42	1992	Hanna Ore Mining Company	n n n n
Buckeye	School	2013	E ¹ 2-NW, ,36-56-25	10/01/42	1992	, 11 11 11 11	n n n n
Buckeye	School	2017	E ¹ ₂ -NE, 36-56-25	4/01/43	1993	11 11 11 11	и и и и
Mesabi Chief	Univ.	2025	W ¹ ₂ -SW, 23-57-22	6/07/43	1993	n n n	и и й и
Mesabi Chief	Univ.	2027	NE-SW, 23-57-22	1/12/44	1994	11 11 11 11	и и и и
Mississippi #1	Univ.	2095-N	W ¹ ₂ -NE, 23-57-22	10/03/60	2008	H H H H	и и и и
Majorca	Univ.	2034	S ¹ ₂ -SW, 9-56-23	5/27/46	1996	Hanna Coal & Ore Corp.	и и и и
Rita Res. (H-52)	Univ.	2071	S½-SE, 10-56-23	8/01/52	2002		и и и
Rita Res. (H-52)	Univ.	2072	Lots 1 & 2 (N!2-NE), 15-56-23	8/01/52	2002		
Marr Adair	Tax F.	I-5069-FN	Und. 2/3 Int. Min. & Min. Rts., NW-SE, Lot 7, 3-55-25	7/01/66	2016	J. & L. Steel Corporation	J. & L. Minnesota Ore Div.

^{*} Lease extended under Laws 1959, Chapter 455.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981 ITASCA COUNTY

Property	Fund	Lease No.	Description	Issued	Expires		Pre	sen	t Les	see		Operat	ing Con	pany	
Majorca	Univ.	3041	S ¹ ₂ -SE, 9-56-23	5/27/46	1996	Hann	a Co	al	& Ore	Corp.	The	Hanna	Mining	Company	
	Univ.	3042	N ¹ ₂ -SE, 10-56-23	5/27/46	1996	11	"		11 11		11	11	n	11	
Draper	Univ.	3043	SW-NW, NW-SW, 10-56-23	5/27/46	1996		"		" "		. "	"	"	11	
	Univ.	3044	NE-NE, 10-56-23 & NW-NW, 11-56-23	5/27/46	1996	"	"		11 11	"	11	***	"	11	
Barbara	Univ.	3046	E ¹ 2-SE, 8-56-23	9/07/46	1996	**	"		** **	" .	"	11	11	"	
Vernon	Univ.	3048	Lot 2 (NW-NE), 2-56-23	3/17/47	1997	Butl	er B	rot	hers		"	"	11	21	
Helen	School	3073	NE-SE & Min. Rts. SE-SE, 36-57-23	8/18/49	1999	"		"			"	"	"	19	
	Univ.	3062	NW-NW, 23-57-22	2/20/48	*2023	Onta	rio	Iro	n Co	mpany	Picl	cands	Mather	& Company	7

^{*} Taconite lease extended

STATE OF MINNESOTA DEPARTMENT OF NATURAL RESOURCES DIVISION OF MINERALS

STATE COPPER-NICKEL MINING LEASES IN EFFECT JUNE 1, 1981 SAINT LOUIS COUNTY

	Present	Lessee		Lease No.	Description	Acreage		tional Bid Royalty Rate	Issued	Expires
Bea	r Creek	Mining	Company*	7102	Mingrals in: SE4-NE4, SE4-SW4, and S½-SE4, Sec. 10-60-12	160	\$25/acre	2.75%	12/30/66	
. "	"	u	"	7105	SE4-SW4; minerals in NE4-SW4, Und. 15/16 int. in minerals (without warranty of title) in NE4-NW4, and Und. 1/16 int. in minerals (without warranty of title) in SE4-NW4,					
					Sec. 15-60-12	160		2.75%	12/30/66	2016
.,	"	"	"	7106	E-2-NE-4, SE-4, Sec. 16-60-12	240	"	2.75%	12/30/66	2016
"		"	"	7108	Ng-NE4, SW2-NE4, NW4-SE4, Sec. 21-60-12	160		2.75%	12/30/66	2016
"	**	!!		7111	NW4-NE4, S12-NE4, W1, N2-SE4. Sec. 28-60-12	520		3.35%	12/30/66	2016
	"	,,	**	7112	SW4-SW4, NE4-SE4, S4-SE4, Sec. 29-60-12	160	11	3.35%	12/30/66	2016
		"		7114	E-2-NE-4, Lot 1, Lot 3, Lot 4, SE-4-SN-4, Sec. 31-60-12	249.52			12/30/66	
	"	"	- 11	7115	N2-NE4, NW4-NW4, S12-SW4, SW4-SE4, Sec. 32-60-12	240	"		12/30/66	2016
	"	"	.,,	7116	NE4-NE4, S4-NE4, Ws, Sec. 33-60-12	440	"		12/30/66	2016
. "	"	**		7123	NE4, SE4-MV4, S15, Sec. 36-60-13	520	"		12/30/66	2016
	"	"		7129	SD4-NW4, and minerals, without warranty of title, including any surface interest owned by state in: SW4-NW4, E15-SW4, W5-SE14, Sec. 3-57-14	240	"	200000000000000000000000000000000000000	12/30/66	2016

		-	e 4-B	Lease No.				itional Bid		
		Lessee		CN-	Description	Acreage		Royalty Rate	Issued	Expires
Bear	r Creck	Mining	Company*	7130	Minerals, without warranty of title, including any surface interest owned by state in: Lot 2, S½-NE¼, Lot 3, SE¼-NN¼, NE¾-SW¼, N½-SE¼, SW¼-SE¼, Sec. 4-57-14	359.20	\$25/acre	2.75%	12/30/66	2016
11	"		,	7131	SE4-SE4; and minerals, without warranty of title, including any surface interest owned by state in: N2-NE4, SE4-NE4, NE4-NW4, SW4-NW4, Sec. 9-57-14	240		2.75%	12/30/66	2016
"	"	"	"	7132	SE4-SW4, SW4-SE4; and minerals, without warranty of title, including any surface interest owned by state in: NW4-SE4, Sec. 10-57-14	120	n	2.75%	12/30/66	2016
"	"	"	"	7908	Sec. 16-57-14	640	\$5/acre	2.27%	12/18/71	2021
		*			Totals	4,408.72				
						(3,569.52	trust fund tax-forfei			

^{*}Bear Creek has entered into a Prospecting and Development Agreement with Amax of Minnesota, Inc., which affects all leases held by Bear Creek. The Agreement has been extended until 10/15/81 and is extendable for one more year.

SUMMARY SALES OF COPPER-NICKEL LEASES

Acreage Offered	Sale Date	Leases Awarded	Lessees	Gross Acreage							L	eases and	Acrea	age by Co	unty					
120 550	20/00///					Cook	L	ake	St.	Louis		tasca				of Woods	Marshall	Roseau	Be	ltrami
132,550	12/20/66	267*	13	87,635	29	6,115	37	8,955	201	72,565										
424,000	8/15/68	130**	2	58,235									117	50,455	13	7,780				
327,000	12/11/68	238	6	88,082					169	59,680	54	21,470	15	6,932			3.8			
230,916@	6/30/70	199***	7	92,510					18	8,415		37,983	14	7,658	85	38,454	*			
800	(9/30/71)	3****	1	800											1	160		2 640		
791,399@@	12/14/71	71****	* 5	35,647					10	2,720			4	2,431	7			2 040		
237,258@@@	11/29/73	136	_5	62,404			-		74	33,028	1	508		14,281		,,	7 3,157			27,310
2,143,923	6 Sales	1,044	17	425,313	29	6,115	37	8,955		176,408	137	59,961		81,757				2 640		4,234

Includes three leases awarded later and one high bid by Duval (L-117) was rescinded after INCO's objection.

Includes one negotiated lease and one high bid (LW-119) was not signed, therefore, not awarded. Does not include one high bid pending - Duehr later released his bid on LW-501.

^{****} Negotiated leases.

^{*****} Of the 78 high bids, action on seven was postponed to a later date. On 12/14/73 six bids were withdrawn by the bidders and one was awarded. @ Includes only new acreage offered.

^{@@} Includes only new acreage offered, i.e. 154,131 in Gabbro and 637,268 in Greenstone.

^{@3@} Includes only new acreage offered which was in the Greenstone.

Note: The first sale was in the Gabbro, the next three in the Greenstone, and the fifth and sixth comprised both Gabbro and Greenstone Formations.

TOTAL.	ACCUMULATED.	COPPER-NICKEL	ROYALTY	(Tuly	1	1980)
TOTAL	MOCOULINE	COLLEKTICKER	KOIMBLI	Canta	1.	1700)

Table 4-D

	Fiscal Year	Consolidated Conservation	Acquired Forestry	Tax Forfeited	School Trust Fund	University Trust Fund	Total Royalties Received
	1967	\$	\$ 2,778.36	\$ 48,899.31	\$ 33,156.17	\$ 303.26	\$ 85,137.10
	1968		714.77	14,657.35	12,154.16	85.80	27,612.08
	1969	65,876.45	4,968.65	104,435.22	60,248.89	285.25	235,814.46
	1970	10,935.07	2,418.53	48,959.20	34,545.62	186.15	97,044.57
	1971	86,788.87	2,072.91	106,510.19	74,085,93	184.22	269,642.12
	1972	33,327.49	650.51	40,102.62	34,805.00	60.00	108,945.62
	1973	10,369.38		18,091.40	18,408.03		46,868.81
	1974	16,255.18	2,892.86	38,141.90	19,295.38	125.59	76,710.91
	1975	33,100.66	1,449.81	11,973.65	13,024.09		59,548.21
	1976	3,017.84	2,910.17	31,143.23	15,911.88		52,983.12
	1977		1,212.21	25,035.14	55,434.54		81,681.89
	1978	4,067.74		24,867.11	34,138.99		63,073.84
	1979			22,456.74	13,875.15		36,331.89
	1980			26,383.61	304,439.54		330,823.15
		\$263,738.68	\$22,068.78	\$561,656.67	\$723,523.37	\$ 1,230.27	\$ 1,572,217.77
			DISTRIBUT	ION OF COPPER-	NICKEL ROYALTY		
		Consolidated Conservation	Acquired Forestry	Tax Forfeited	School Trust Fund	University Trust Fund	Total Royalties Received
C.C.A.F. County General I		\$131,869.34 131,869.34	\$11,034.39 11,034.39	\$449,325.34 112,331.33	\$723,523.37	\$1,230.27	\$ 131,869.34 592,229.07 123,365.72 724,753.64
Total							\$1,572,217.77

Table 4-D

DISTRIBUTION OF COPPER-NICKEL ROYALTY*

	Consolidated Conservation	Acquired Forestry	Tax Forfeited	School Trust Fund	University Trust Fund	Total Royalties Received
C. C. A. F.	\$131,869.34					\$ 131,869.34
County						
Beltrami	16,125.89		\$ 15,358.00			31,483.89
Cook			943.05			943.05
Itasca		\$ 191.95	51,301.22			51,493.17
Koochiching	58,235.10	3,407.52	20,987.44			82,630.06
Lake			12,801.43			12,801.43
Lake of the Woods	55,265.07					55,265.07
Marshall	1,843.28					1,843.28
Roseau	400.00					400.00
St. Louis		7,434.92	347,934.19			355,369,11
eneral Revenue		11,034.39	112,331.34			123,365.73
rust Funds		•		\$723,523.37	\$1,230.27	724,753.64
otal	\$263,738.68	\$22,068.78	\$561,656.67	\$723,523.37	\$1,230.27	\$1,572,217.77

Distribution as of July 1, 1980

INCLUSIVE, AND SECTIONS 93.08 TO 93.12.
INCLUSIVE, AND SECTION 93.25; AND
THE RULES AND REGULATIONS ADOPTED
BY THE STATE EXECUTIVE COUNCIL
ON NOVEMBER 8, 1966.

Table 4-E

2.3

4 5 F

Recorded in Book CN
March 28, 1967

Lease No. CN-7114

This indenture, made this 30th day of December , 1966, by and between the State of Minnesota, hereinafter called the state, and

Bear Creek Mining Company, 1826 Kennecott Bldg., 10 East South Temple,

Salt Lake City, Utah, a Delaware corporation,

hereinafter called the lessee, WITNESSETH:

1. TERM; DESCRIPTION OF MINING UNIT. That the state, for and in consideration of the sum of Five Hundred Seventy-Six and 98/100 - - - - - - (576.93) Dollars, to it in hand paid by the lessee, being the rental hereinafter provided for the unexpired portion of the current calendar year and for the next succeeding calendar year, the receipt whereof is hereby acknowledged, and in further consideration of the covenants and conditions hereof to be kept and performed by the lessee, does hereby lease and demise unto the lessee for a term of fifty (50) years beginning the 30th day of December , 19 66, the following-described mining unit, hereinafter called "said mining unit", situated in the county of Saint Louis, in the State of Minnesota, to-wit:

The East Half of Northeast Quarter (E½-NE¼), Lot One (1), Lot Three (3), Lot Four (4), and the Southeast Quarter of Southwest Quarter (SE¼-SW¼), containing 249.52 acres, more or less; and the minerals and mineral rights, without warranty of title, in the following:

West Half of Northeast Quarter (W2-NE2), East Half of Northwest Quarter (E2-NW4), Lot Two (2), Northeast Quarter of Southwest Quarter (NE4-SW4), North Half of Southeast Quarter (N2-SE2), containing 324.32 acres, more or less,

in Section Thirty-one (31), Township Sixty (60) North, Range Twelve (12) West.

	Recorde	Date of Issue		To Whom Issu	ıed				
y-3	3-28-67	12-30-66 Bear	Crock N	Mining Company			Sec . 3/ T	. 60 R	./2
	1	ASS	IGNMENTS A	ND OTHER INSTRUMENTS FIL	.ED				
No.	Date Recorded		Date of Issue	By Whom Issued	Inter-	To Whom Jacob		ne Fi	led
		Certif. of Tite	12/1/27	District Court Sixth Judical Dist.	Full	To Whom Issued	Mo.	Day	Yr.
, [9	i i	Development Agree- ment plus Exhibits		Bear Creek Mining Co.	Varies*	Amax, Inc.	8	30	76
		A, A-1, B, C, & Desuch Development Agreement affecting leases CN-7102, 710, 7106, 7108, 7111, 7112, 7114, 7115, 7116, 7123, 7129 Chru 7132 & 7908.	2	*Grant of exclusive prosp plus an option for suble possibility for an earne	ase or all in	tomocto +1			

Description	Gross	Net				R	evisio				3
Section 31 T. 60 R. 12	Acres	Acres	Inst.	Date	Revsd. Acres	Inst.	Date	Revsd. Acres	Inst.	Date	len.
Swamp Luncis											+-
E12-NE		80.									- \
Let 1		46.04									-
Lut 3	A COLOR	12.60									1
Let 4		10.58		-							-
SE-SW		40.									1
Total school, swamp lakebed		249,52			24952						1
											1
Tax Forteited Lands											
Minerals only of:											-
W12- NE Declaral Longyear Mosata Co.	wheels	800	Idama!	12-7-67	Nine						二
E/2- NW: " "	4	800	4	4	"						
Lot 2 " "	,	44.32	п	4	и						
NE-SW "	•	40.	4	"	4						
N/2-SE " " 1	^	80.	4	4	- 11						
Total Tax Fortified Lands		324.32			0.00						
			1								-
Total Leased Lands		573.84			249.52						
•											
Soo Cortificate at Title # 179613											-
	100-100-000				1.1						-
		1						1. 67			
				1							
					1 1 1 1						
				4-8-7-					No.		

TABLE 5

PERMANENT SCHOOL FUND LANDS

REQUESTS TO PURCHASE

YEAR	REQUESTS	REQUEST APPROVED	ACRES APPROVED	REQUEST DENIED	ACRES DENIED
1980	48	10	440	38	5,840
1979	59	18	1,045	41	6,395
1978	41	17	698.3	24	2,341.7
1977	79	2	82.0	77	8,158
1976	43	. 7	400	36	4,520

Permanent School
Fund Acres
Within
Management Unit Management Units

Condemned
Permanent School
Fund Acres
Within
Management Units

		Acres	Amount Paid Dollars
Wildlife Management Areas (WMA)	68,070	47,625.96	927,184.48
State Forests	1,605,215.29	-0-	-0-
Minerals	52.66	-0-	-0-
State Parks	9,717.28	1,793.8	230,800.00
State Waysides	640	-0-	-0-
SNA's	-0-	-0-	-0-
State Trails	237.54	-0-	-0-
Public Access	204	-0-	-0-
Wild & Scenic Rivers	644.77	-0-	-0-
Fisheries	-0-	392.5	15,212.50
TOTAL	1,684,781.54	49,812.26	1,173,196.98
All Other Permanent School Trust Comdemnations	-0-	32,777.04	4,717,742.56
GRAND TOTAL	2,522,011.3	82,589.30	5,890,939.54

TABLE 7

MINNESOTA

PERCENT OWNERSHIP OF PEATLANDS

Ownership	Acres	Percent
Federal	445,520	7.5
State Trust	1,489,720	25.2
County Tax Forfeit	354,000	6.0
Other County	274,600	4.6
Private	2,307,160	38.9
Consolidated Conservation	1,055,120	17.8
TOTAL	5,926,120	100.0

Source: MLMIS (Nov. 1978)

FRANK. DIN STATE OF MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR Veterans Service Building, 1st Floor West Wing St. Paul, Minnesota 55155 **ELDON STOEHR** (612) 296-4708 Legislative Auditor June 3, 1981 RECEIVED JUN 3 1981 Mr. Joseph N. Alexander, Commissioner Department of Natural Resources COMMISSIONER'S Third Floor Centennial Office Building OFFICE 658 Cedar Street St. Paul, Minnesota 55155 Dear Mr. Alexander: The enclosed draft audit report, which summarizes the results of our audit work for the Permanent School Fund, is being sent to you for your review. We would like your formal written response to our comments and recommendation by June 12, 1981. Please address your response to Eldon Stoehr. Legislative Auditor. We anticipate that the final audit report will be released shortly after we have received your response. Your response will be included in the report if it is received by the above date. If you would like to discuss any of the items in the audit report, please contact me at 296-1444. Sincerely, Men Willia Allen Willie Audit Manager AW:nl Enclosure con (15)



STATE OF MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR

Veterans Service Building, 1st Floor West Wing St. Paul, Minnesota 55155

ELDON STOEHR Legislative Auditor

Senator Donald M. Moe, Chairman Legislative Audit Commission

and

Joseph N. Alexander, Commissioner Department of Natural Resources

LEGISLATIVE AUDITOR'S OFFIG £296-4708 NOT FOR DISTRIBUTION

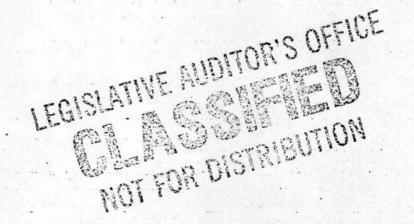
This report deals with the Department of Natural Resources' (DNR) management of 2,521,000 acres of Permanent School Fund land which is held in trust for the school districts of the state.

The Permanent School Fund's major assets currently consist of a nonexpendable investment principal of \$278 million invested by the State Board of Investment and the land managed by the Department of Natural Resources. The revenue from the sale or use of the 2,521,000 acres increases the nonexpendable investment principal of the Permanent School Fund. Income earned on the \$278 million is annually distributed to the school districts through the Endowment School Fund.

Our review disclosed major-problems in the way that the Department of Natural Resources is managing the Permanent School Fund land, including:

- They have not established any objectives for the overall management and use of the land.
- Haphazard sale of land that occurs mostly after inquiry from sources outside the Department of Natural Resources.
- When lakeshore lots were leased, it was done so at rates & only one-half that of lakeshore lots managed by the U.S. Forest Service, and the state rates have been unchanged for the past six years. Total revenue lost, much of which belongs to the Permanent School Fund, is estimated at \$250,000 per year.
- Inadequate financial management of the revenue collected for the Permanent School Fund has resulted in an interest loss to the fund of over \$400,000 in the last 21 months.

A REVIEW OF THE
DEPARTMENT OF NATURAL RESOURCES'
OPERATION AND MANAGEMENT OF
THE PERMANENT SCHOOL FUND



OFFICE OF THE LEGISLATIVE AUDITOR
FINANCIAL AUDIT DIVISION
June, 1981

LEGISLATIVE AUDITOR'S OFFICE

Senator Donald M. Moe, Chairman and Joseph N. Alexander, Commissioner

NOT FOR DISTRIBUTION

Page 2

Permanent School Fund land has been used by the Department of Natural Resources as components of restricted areas such as state parks, state forests, and public accesses. The Department of Natural Resources has not compensated the Permanent School Fund for effectively removing this land from any revenue producing possibility.

While we consider all of these problems to be serious, perhaps the greatest danger concerning the management of the Permanent School Fund is in the future. According to a report issued by the Department of Natural Resources, there exists in an approximately 13 square-mile area in northern Minnesota copper-nickel resources with current values in excess of \$100 billion. Also, the report says that there are lesser, but significant amounts of silver, gold, platinum, palladium and cobalt. Approximately 29 percent of this land is owned by the Permanent School Fund. In addition, much of the Permanent School Fund land in Minnesota contains peat deposits which have the potential to be a future energy source. The possibilities for utilization of Permanent School Fund land for mineral and peat development in the future make it crucial that initial decisions regarding this development be handled correctly.

It is our conclusion that significant changes are necessary in the current management of the Permanent School Fund land. The Department of Natural Resources should not have the sole decision-making authority over the use of the land. Competing interests within the Department of Natural Resources make it improbable that the maximum rate of return will be earned by using that approach. The management of the Permanent School Fund can be improved in a number of different ways, but our one recommendation is that some management oversight be established outside the organizational structure of the Department of Natural Resources.

This is not a report to be read and filed. Neither is it a report that has answered all the questions that could be raised concerning the Permanent School Fund. Hopefully, it is a report that will set in motion the change that is needed in the management structure of the Permanent School Fund. The implementation of this proposed change could result in a greater return on Permanent School Fund land and have a substantial effect on future aid paid to school districts.

Eldon Stoehr Legislative Auditor

TABLE OF CONTENTS

그 그 그리는 사람들이 되었다면 보고 있는 것이 되었다면 하는 것이 되었다면 살고 있다면 하는데 없다.	Page
OBJECTIVES AND SCOPE	1
SIGNIFICANCE OF THE PERMANENT SCHOOL FUND	1-3
HISTORY OF THE FUND	3-5
WEAKNESSES IN THE MANAGEMENT OF THE FUND:	5-15
 DNR has failed to establish objectives for the management of the PSF. DNR has not established adequate policies and procedures to maximize the revenue for the PSF. DNR has not provided adequate financial management for the PSF. DNR has not adequately compensated the PSF for the 	6 7 10
 DNR has not adequately compensated the PSF for the use of the PSF land. The possibility of conflicting priorities exists in 	12
the management of the PSF by DNR.	14
CONCLUSION AGENCY'S RESPONSE LEGISLATIVE AUDITOR'S OFFICE	15
AGENCY'S RESPONSE LEGISLA SIFIED NOT FOR DISTRIBUTION	

AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

Patrick J. Spellacy, C.P.A., Deputy Legislative Auditor Allen D. Willie, C.P.A., Audit Manager John R. Hirschfeld, Auditor in Charge Anthony J. Toscano, Staff Auditor Carl A. Otto, Staff Auditor PERMANENT SCHOOL FUND.

OBJECTIVES AND SCOPE OF THE REWIED ISTRIBUTION

The objectives of this review were to analyze the effectiveness of the policies and procedures used by the Department of Natural Resources (DNR) for the administration of the Permanent School Fund (PSF). This included a review for compliance with applicable statutes, rules, and regulations, and determination that the financial transactions and operations are sound and are for the best interests of the general public. The review was also conducted to determine the adequacy of the rate of return on fund land, if improvements in the operation of the PSF could be instituted, and if the management structure of the PSF is the best one suited to maximize the benefits for the recipients of the fund.

The scope of this review included an analysis of the laws and regulations, receipts and expenditures, and administrative procedures for the PSF, with major emphasis on the last ten years.

SIGNIFICANCE OF THE PERMANENT SCHOOL FUND

The PSF currently consists of approximately 2,521,000 acres of land located in the northern half of the state, and a nonexpendable investment principal of \$278 million (current market value \$252 million) at June 30, 1980, which is invested by the State Board of Investment (SBI). The following table illustrates the counties in Minnesota that contain PSF land in excess of 100,000 acres:

LEGISLATIVE AUDITOR'S OFFICE

	County	Number of Acres Total PSF Land	
	Aitkin Cass	138,983 136,724 NOT FOR DISTRIBUTION	-
	Cook	121,193	
•	Itasca Koochiching	292,563 12 %	
	Lake	854,652 34 % 161,058 6 %	
	St. Louis	483,463 19 %	
	TOTAL	<u>2,188,636</u> <u>88 %</u>	

In fiscal years 1979 and 1980, revenue resulting from the sale or use of the land, which was added to the principal, amounted to \$3,020,000 and \$5,195,000, respectively. This amounts to an average earnings per acre of \$1.20 for 1979 and \$2.06 for 1980. Eighteen million dollars was earned on the investment principal by SBI and was distributed to the school districts through the Endowment School Fund. However, the most significant impact of the PSF may be the future potential for peat and mineral leases. In a 13 square mile area in northeastern Minnesota, of which the PSF owns an estimated 29 percent, there are copper-nickel resources with current values exceeding \$100 billion. The total complex consists of 1,500 square miles and, according to the Minerals Division of DNR, has good potential for the discovery of additional mineral resources. In addition, Minnesota has a peat reserve of 5.9 million acres, approximately one-half of which is owned by the state. Although DNR could not provide us with exact figures, it is believed that a large portion of this state-owned peatland is in fact PSF land. DNR has recently completed a study concerning the future use of peatlands, and has concluded that peatlands are a valuable resource. As an example, Minnegasco has applied to DNR for peatland

¹Minnesota Government Report, March 19, 1981, p. 5.

leases totaling 200,000 acres, which would be used for energy production. Consequently, the future potential for revenue from PSF peatland may be highly significant.

Since the beginning of the current financial crisis of the State of Minnesota, attention has been directed toward reducing costs and obtaining new sources of revenue. With this in mind, maximizing the return on the PSF lands could be one means of at least partially satisfying those objectives. However, it should be kept in mind that only the proceeds from investing the money (by SBI) can be distributed to schools and not the entire proceeds from the sale of land. Thus, even if PSF land was sold, the proceeds could not be directly used to offset the General Fund deficit.

HISTORY OF THE PERMANENT SCHOOL FUND

The PSF consists of:

- -- the proceeds of lands granted by the United States for use of schools within each township.
- -- proceeds derived from swamp lands granted to the state,
- -- all cash and investments credited to the Permanent School Fund and Swamp Land Funds, and
- -- all cash and investments credited to the internal improvement land fund, and the lands therein.²

The principal of the fund is perpetual and inviolate, however, the interest and dividends arising from the fund are distributed to the different school districts of the state in proportion to the number of students in each district between the ages of 5 and 21 years.

²Minnesota, <u>Constitution</u>, art. 11, sec. 8.

School lands were reserved for the state to be by the Organic-Act of 1849, and actually granted to the state by the Enaphing Act of 1857. This reserved sections 16 and 36 in each township and resulted in the conveyance to the state of approximately 2,900,000 acres of land. The income from these lands was to be placed in trust to support public schools. On September 4, 1841, a federal statute granted to Minnesota 500,000 acres of land for internal improvements, including the construction of railroads. In 1860, the United States Congress granted to the State of Minnesota swamp or overflowed lands amounting to 4,777,636 acres. The proceeds from the sale of these swamp lands were to be used, as far as was necessary, for the construction of levees and drains. These three funds have now been consolidated into one fund, the Permanent School Fund.

The original policy of the state was the speedy survey and sale of the land to generate income for the trust funds and facilitate economic development and growth in Minnesota. In 1872, the constitutional amendment of November 5 provided that the internal improvement lands should be appraised and sold in the same manner as the school fund and, in 1881, similar arrangements were completed for the swamp fund lands. Gradual modification of the quick-sale policy resulted in permanent state ownership of certain lands, including the reservation of mineral rights in 1889 and the creation of Itasca State Park in 1891. Water power sites and state lands bordering on or adjacent to public waters were also withdrawn from sale through legislative action in the early 1900's.

³Dana, Allison, Cunninghan, <u>Minnesota Lands</u>, (Washington D.C., American Forestry, 1960.)

Acquisition by the state of land from private owners is a relatively recent occurrence and includes private holdings within state parks, state forests, fish and wildlife habitat, public accesses to lakes, and lands acquired for other purposes. More than one-half of the state forests and state park systems were established between 1930 and 1950, with the vast majority being trust fund land, conservation land, and tax forfeited land.

The administration of lands was relegated in 1861 to the State Board of Commissioners of School Lands, consisting of the Governor, the Attorney General, and the Superintendent of Public Instruction, to which was given "general care and supervision of school lands, the selling and leasing of the same, and the investment and disposition of the funds arising therefrom." This board was abolished after one year, during which time no school lands were sold. In 1862, the Legislature established a State Land Office and made the State Auditor the Commissioner ex officio, with responsibility for supervision of state lands, including authority to sell, lease, or dispose of them as directed by law. In 1931 the Department of Conservation was organized, and responsibility for management of state lands was transferred from the State Auditor's office. The Department of Conservation was reorganized into the Department of Natural Resources in 1969, and maintained the responsibility for the management of the PSF.

The PSF currently consists of 2,521,000 acres, of which 954,000 remains from the school land grant, and 1,560,000 acres and 7,000 acres from the swamp land grant and internal improvement land grant, respectively.

WEAKNESSES IN THE MANAGEMENT OF THE FUND

As mentioned earlier in the report, our objectives included a review of policies and procedures, compliance with laws and regulations, financial

analysis, and determination of the efficiency of operation. During our review of this fund, five major areas of concern were discovered that could influence the effectiveness of managing the PSF. These areas are discussed below.

1. DNR has failed to establish objectives for the management of the PSF.

Establishing objectives involves the primary managerial function of planning, and in order to determine objectives, the purpose of the entity has to be defined. The purpose of the PSF is to aid public education and the optimum way to aid public education is for the PSF to provide maximum financial support.

Consequently, the objective of the PSF should be to maximize the revenue earned on the land. We attempted to verify that DNR had established this objective for the PSF, but we found no evidence in DNR to substantiate the existence of any formal objectives. In fact, Land Division personnel advised us that they knew of no objectives, and this is the division responsible for management of the fund. Viewed from a different aspect, the Department of Education could be considered the recipient of the earnings of the fund, yet, they are not consulted as to any preferences or objectives they feel are essential.

Objectives represent not only the end point of planning but the end toward which the entity is directed and controlled. Without objectives, there cannot be efficient management of the fund. An example of a possible conflict in attempting to maximize profits is the alternate selection of short or long-term goals. While holding land for long-term appreciation is one method of maximizing profits, so is the short-term goal of selling the land. A continuous evaluation should be completed to determine the profitability of each, and we found no evidence of any comparison or of any study to evaluate these

alternatives. In addition, appreciation of land values in state forests or other restricted areas is the effect of the policy, not the established objective. Also, any profit on the appreciation of this land in restricted areas will not be realized because it can only be used for the purpose of the restriction. Without clear objectives, managing is haphazard and random, and no individual or group can be expected to perform effectively or efficiently unless a clear goal is sought.

DNR has not established adequate policies and procedures to maximize the revenue for the PSF.

Policies denote a general program of action and a deployment of emphasis and resources toward the attainment of comprehensive objectives. In our review of the PSF, an analysis of the current programs in use by DNR was completed. We found various programs where the policies of DNR would not result in the maximization of profit for the PSF, and these are given below.

Sale of Land

DNR currently manages approximately 2,500,000 acres of land for the PSF, yet in the past 11 years only 13,000 acres were sold. In talking with representatives of the Land Division, they stated that land sales originate from two sources outside DNR: (1) legislative requests, and (2) requests for purchase by an individual. In either case, there is no strategy to dispose of unneeded land by DNR. In addition, the current contract terms for land sales are not comparable to commercial land sales. The current terms include an

⁴Koontz and O'Donnel, <u>Management</u>, Sixth Edition, (New York, McGraw-Hill, 1976.)

interest rate of 4 percent and a contract length of 20 years. DNR attempted to increase the interest rate by the introduction of bill HiP. #253 in the 1981 Legislature, but the bill failed to pass. DNR did not attempt to alter the length of the contract. In a brief survey with four realty companies, the average length of a similar contract in the private sector was determined to be about seven years. The longer term reduces the potential profit to the fund because the quicker the money is received, the sooner it can be invested.

Leasing Lakeshore Land

DNR currently leases land for various purposes, including mineral leases, timber sales, agricultural, commercial, governmental and recreational leases. While a lack of information limited our review, we did find that the procedures were inadequate for leasing lakeshore lots. The yearly rates for the leases are 5 percent of the appraised value, or amounting to approximately \$150 per lease per year. The Land Division has advised us that the rate is probably too low and should compare dollar-wise to the \$300-\$350 charged by the U.S. Forest Service. One probable reason for the difference in rates is the frequency that land appraisals are done by DNR. The U.S. Forest Service appraises their leased land every five years, while DNR has done it every ten years. In an era of rapidly escalating land values, it may be necessary to do land appraisals more often. DNR has informed us that they plan to go to a five year cycle starting in 1985. While time limited us from determining all the reasons why the DNR lease rate was significantly lower than the federal lease rate, DNR should review this situation. If the assumption by the Land Division that the lakeshore lease rates should be doubled is correct, the state, primarily the PSF, is losing up to \$250,000 each year in lease revenue.

LEGISLATIVE AUDITOR'S OFFICE

Lack of an Inventory

An essential element in any management organization is a thorough knowledge of what you are managing. Relating this to the PSE, an accurate inventory of the land, including the various types of uses, the revenue from each type of lease, the number of acres for each use, etc., is necessary in order to effectively manage the PSF lands. Various inventory records that were not readily available include:

- the number of acres leased;
- the number of acres of each type of lease, such as minerals, lakeshore, agricultural, etc.;
- land withheld from sale by various divisions of DNR;
- land included in state trails;
- land in public accesses;
- land in the scenic river system; and
- scientific and natural acres.

Without these figures, an accurate evaluation of a rate of return was not possible. Also, this information would be necessary when setting objectives and policies of the PSF, because evaluation of this data is necessary for comparison to established objectives. Personnel from the Land Division have informed us that they will be implementing a computer inventory system later this summer. Determining the rate of return for the PSF will not be feasible until an adequate system is operational.

Exchange of Land

The school trust fund originally consisted of sections 16 and 36 in every township. Many of these scattered sections still exist. The scattering of land ownership tends to result in higher administrative costs. An exchange

of land to consolidate some land holdings would benefit the PSF and DNR in two respects: first, it would reduce administrative costs and, secondly, the larger land holdings would be susceptible to management operations not previously available. Since the state now maintains mineral rights to all land sales and exchanges, an analysis of the advisability of holding on to the approximately 100,000 acres of PSF land in the Boundary Water Canoe Area (BWCA) should be completed. Since timber sales are somewhat restricted, and mineral rights are retained on any land exchanges, an exchange of this land for possible revenue producing land owned by the federal government should be The U.S. Forest Service has offered to exchange this land, but considered. DNR has declined. If, for reasons other than those mentioned, DNR wishes to have land in the BWCA, some means of compensating the PSF should be considered. This could be accomplished by DNR condemming the PSF land in the BWCA, which would result in a lump sum payment by DNR to the PSF for the appraised value of the land. An alternative method would be to reimburse the PSF annually for the land in the BWCA. This is currently done by the U.S. Forest Service, which pays the counties for federal land held in the BWCA. DNR could provide similar payments to the PSF. DNR has advised us that the Land Exchange section will be enlarged, and this may facilitate the additional exchange of land.

3. DNR has not provided adequate financial management for the PSF.

We stated earlier that the review also included an analysis of the financial management of the revenue earned on PSF trust lands. Responsible financial management is an essential element in the administration of the fund, and a responsibility of DNR. Various problems were encountered in our review including:

- ATIVE AUDITOR'S OFFICE A delay in the transfer of funds from a DNR clearing account to the PSF account. Revenues are initially recorded in a cleaning account. and later transferred to the propen fund beck DNR failed to transser out these funds on a timely basis, in the past 21 months the PSF lost over \$400,000 in interest. As of May 13, 1981, the Mining Advance Royalty account had a balance of \$3,020,000, much of which could have been distributed to the appropriate funds.
- Establishment of a clearing account for PSF revenues in a fund other than in the PSF. This resulted in temporary investment earnings to be earned by a fund other than the PSF.
- Failure to close out a mineral royalties suspense account. supposedly closed out this clearing account 18 months ago, yet as of May 1, 1981, \$82,000 remains in the account. This amount could have been distributed to the proper funds.
- Lack of written policies and procedures for the recording of mineral receipts. The position responsible for the recording of mineral receipts has been vacant for six months, and the person eventually filling this position will find it difficult to learn the functions of the job without adequate written procedures.

All of these problems, while significant in themselves, indicate that DNR failed to manage the receipts of the PSF properly. When pointing these problems out to the Administrator of the Land Division, he stated that financial control is the responsibility of the Fiscal Services Division. While this may be true, it points out the lack of a review system over the financial management of the fund.

VE AUDITOR'S OFFICE DNR has not adequately compensated the PSF for the use of PSF land

The basic objective of the PSF should be to necesive as much reve as is possible in order to aid public education. Ho restricted areas, such as state parks, state forests, and public accesses, and much of these areas consist of PSF land. When land is included in these areas, it can only be used for the purpose of the restriction. Consequently, outside of timber sales, PSF land in restricted areas is not producing revenue for the PSF, and DNR has not compensated the PSF when other revenue producing - activities are precluded. It is not possible for the PSF to achieve the maximum rate of return when the lands are handled in this fashion.

Various personnel within DNR recognize the fact that the problem of compensation to the PSF for these lands exist. In 1978, an attempt was made by the Commissioner of DNR to obtain funds to purchase PSF land within these restricted areas. This request was denied. Nonetheless, DNR has failed to adequately compensate the PSF for all land included in the restricted areas.

While there may be some argument against compensating the PSF for this land use, we did find two studies relevant to this problem. The State of Washington addresses this issue in relation to the role that the Washington Department of Natural Resources assumes towards their PSF. 5 The State of Washington, in a report by the Lewis and Clark Law School on Environmental Law, recognized the trustee relationship of DNR to their PSF lands. They state that "the trust concept establishes a recognition of the cost of withdrawing these lands from income production." They go on to say that granted lands can be used for any public purpose provided that if use decreases income to the fund, then the trust fund must be reimbursed. This would correlate to

⁵Don Lee Fraser, Sustained Yield Management: Economics and Evenflow, Environmental Law, 1977

land included in restricted areas by the Minnesota DNR. "This requires that every proposal for diverting land to a special purpose have a price tag assigned. There is no such thing as free land if and is desired for a new purpose, then new land must be obtained or present purposes must be foregone on land already held. Either way the cost is the same." These statements indicate the recognition of the cost of withdrawing land from potential revenue sources.

The second support for payment to the PSF is from the Minnesota Constitutional Study Commission Natural Resources Committee Report. They state that:

S SHASE PURCHASE

"The Trust Fund lands must be managed for income, although ecological considerations are important in the minds of those responsible for their administration. A scientific or natural area is probably not income producing. Hence, trust administrators would consider such use of Trust Fund lands a violation of their obligations.

While the state forests are, in one sense, investments of the public in the natural resources of the state, they can also serve to provide other uses to the citizens. At most places, the state forests can provide some recreational resources for the people of the state. They can provide "green space." Since the state committed itself, when accepting the lands, to use the proceeds for school purposes, the principal objective must be sound management for income, consistent with overriding public concerns. Thus Trust Fund lands in state forests can never be 'wilderness areas,' since this would not provide the kind of support for schools required by the trust undertaking. Nor can they be state parks, with developed and permanent recreational facilities.

These are very good arguments for preserving and protecting wilderness areas, scientific areas, and parks. The Legislature can accomplish this by appropriating the necessary funds for the purchase of land. In proper circumstances it ought to do so. The stream of future finance for the schools, which the Trust Fund lands represent, ought to be protected too."

Minnesota Constitutional Study Commission, Natural Resources Committee Report, (November, 1972)

PERMANENT SCHOOL FUNDINE AUDITOR'S OFFICE

Based on these studies, we conclude that DNR should compensate the PSF for the use of PSF land.

NOT FOR DISTRIBUTION

The possibility of conflicting priorities exists in the management of the PSF by DNR.

The potential for a conflict of priorities exists for DNR in the management of the PSF. An example was mentioned earlier and is the lack of adequate compensation to the PSF for use of its land. DNR has restricted various parcels of PSF lands in state parks and other DNR managed projects in attempting to achieve their departmental objectives. Many of the departmental objectives relate to the preservation and maintenance of land or water areas for the use and enjoyment of the general public. While lauding these objectives, they are in fact a direct contrast to the objectives of the PSF. The inclusion of PSF land in DNR's restricted areas removes the land from presently earning any revenue. As a result, DNR is attempting to achieve two distinct and incompatible objectives with the same set of resources. The second potential conflict existed when DNR completed the Land Classification Study in 1973. This study resulted in the classification of the use of the land, and the determination of what land to sell, and this directly affects the realization of earnings on PSF lands.

The purpose of the Land Classification study was to determine the retention, management, or disposition of public land to provide the maximum benefit to the people of this state. The plan for the study states that the "Department of Conservation encourages joint classification by the state and county and technical assistance from other agencies and people interested in

good land management." Outside of DNR, There existed no one-to represent the cialists, including assisting the Regional Administrators to make final sions on land use classifications for state is no mention of the promotion of PSF objectives by anyone, implying that the PSF was in fact neglected. There is also the question of a conflict of priorities when classifying land, for how can a DNR employee properly classify a section of land when the interest of DNR might conflict with the PSF?

A report issued by the State Planning Agency concerning the classification of all state land addresses the same issues. It stated that ". . . (1) the classification assignments are prone to considerable error, oversight and bias, both personal and political; and (2) the value judgments and significance assigned to each of the relevant factors depend upon the individual doing the classifying, and thus, on a statewide basis the application of the classification tends to be insignificant, unsubstantiated and undocumented."8

CONCLUSION

Significant problems in the management of the PSF by DNR exist. We found that DNR failed to establish formal objectives, and that their policies did not maximize the profit for the PSF. They failed to take an active participation in the promotion of the sale of PSF land, and their policy toward the leasing of lakeshore lots may have cost the state over \$1 million in lost

⁷ DNR Land Use Classification Project Report - #5018, Minnesota Land Management Information System, (July, 1975).

^{8&}lt;sub>Ibid.</sub>

revenues during the last four years. Since most of the leases are on PSF land, the majority of this revenue would have been credited to the PSF account. The financial management of the PSF has been inadequate as demonstrated by the loss of over \$400,000 in interest to the fund. Because of a lack of an inventory system and insufficient procedures concerning leasing of lakeshore and the exchange of land, improvements in the operation of the PSF could be initiated. The operation of the fund for the best interests of the trust beneficiaries is questionable because DNR has not compensated the PSF for land restricted from use. We have also shown that a possibility of conflicting priorities does exist in the management of the PSF by DNR. Because of the problems indicated above, we believe that DNR should not have total responsibility for the management of the PSF.

The management of the Permanent School Fund can be improved in a number of different ways, but our one recommendation is that some management oversight be established outside the organizational structure of the Department of Natural Resources.

ST 2 AW - SALE OF SHORE LANDS

STATE OF MINNESOTA

DEPARTMENT Natural Resources-Parks & Recreation

Office Memorandum

: Don D. Davison, Director TO

DATE: March 30, 1981

FROM

: Frank Knoke

Environmental Specialist

PHONE: 296-6226

SUBJECT: Park Development On Trust Fund Lands

STATUS OF TEL IN S.P.

Trust Fund Lands

	Trust rund Lands	24
Parks	Acres % 1	Facilities
Bear Head Lake	1252	Boat landing, roads and trails
Father Hennepin	6.5	Trails
Glacial Lakes	35.23	Trails
Gooseberry Falls	40	Trails
Itasca	1613.76	Road, trails, wilderness areas
Jay Cooke	80	No development
Judge Magney	800	No development
Lake Bemidji	273.83	Trails
Little Elbow	40	No development
McCarthy Beach	384.95	Trails
Mille Lacs Kathio	400	Trails
Nerstrand Woods	460.29	All development
St. Croix	_1560_	Office, trail center, houses, trails
Savanna Portage	2969.5	Trails and portage
∨ Scenic	1195	Everything ?
√Schoolcraft	166.2	Everything
Waysides		
Caribou Falls	40	No development
Cross River	600	No development

SF-00006-02

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT Natural Resources

Assistant Commissioners

Assistant to the Commissioner

io : Division

Division Directors

Rod Sando

DATE: 10/26/82

N. Daneson -

FROM :

Steve Thorne

Deputy Commissioner

PHONE:

SUBJECT:

Trust Fund Land Policy Report

As you are aware, Section 2 of Laws of Minnesota 1982, Art. IV, Chapter 548, requires the Commissioner of Natural Resources, by February 1, 1983, to "submit a report to the education committees of the legislature on its policy for the management of permanent school fund land". In order to accomplish this task in a timely and effective manner, I am making assignments and establishing guidelines as follows.

First, the preparation of the report will be the responsibility of a work group directed by Tom Balcom. In addition to Tom the group will consist of Ken Wald, Kathleen Wallace, Stephanie Warne and Rich Efford. It will work closely with myself and Rod Sando and keep both of us informed about and involved in the drafting process in an ongoing manner.

Each discipline with an interest in the management of trust fund lands (Forestry, Minerals, Trails and Waterways, Parks, and Fish and Wildlife) will be expected to provide comments, data and other written materials, as requested by Tom. Each of these disciplines shall designate a person to carry out these tasks. Please provide Tom with the name of this person, no later than November 1.

Second, the report is to adhere to the attached outline. It should be concise and stay within the scope of the legislative mandate for DNR to report on "its policies for the management of permanent school fund land".

Third, drafts of the various sections of the report should be circulated for internal review by the Commissioner's Office, the Bureau of Land and the interested disciplines as they are completed. Drafts of Sections I through III should be ready for internal review by <u>December 1</u>. At that same time I would also like a more detailed outline of the remaining sections.

cc: Tom Balcom, Ken Wald, Stephanie Warne, Kathleen Wallace, Rich Efford

TRUST FUND LAND MANAGEMENT REPORT SUGGESTED OUTLINE

Preface (state purpose of document)

I. Historical Overview

Content -- general description of TF lands: origins and initial management/disposal policy; federal then state. Include passages from Enabling Acts and other pertinent legislation. (Generally, describe land grants, tax-forfeited lands, and acquired lands; show the differences among them.)

II. Existing Trust Fund Lands

- A. Comparison of original grant and existing land acreages
- B. Geographic distribution (with map), by "sub-fund" lands

Swamplands 1,559,714 acres School Lands 607,075 acres Indemnity School 346,097 acres Internal Improvement 6,677 acres

TOTAL TFL 2,519,563 acres

- C. Acreage of lands within various management units* and lands not in units
 - * Note: TFL in management units should be broken down by amount in various subcategories; e.g., 'state forests" should show TFL in solitude areas, wilderness areas, campgrounds, reforestation areas, etc.
- D. Revenues generated from TFL for PSF (overview/introduction)
- E. Administration, protection, and management costs (overview/introduction)

III. Mandates and TFL Management Goal

- A. Federal conditions of original grants
- B. Constitutional provisions
- C. Recap and/or embellishment of statutes (from section I.) which pertain to restrictions on management of TF Lands.
- D. Goal
 - 1. Overall Goal of TFL management is to "secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles." (Commissioner's Office 6/17/81)

- 2. Discuss balancing economic, resource, and other public concerns
- E. Advisory group (Laws of Minnesota for 1982, Ch. 548, Art. 4, Sec. 2 and 3)

IV. Administration of Trust Fund Lands

In this section, focus on legislative directives, DNR guidelines, operational orders, administrative history, and address major concerns of legislative audit.

A. Introduction (brief)

- DNR Organization -- explain overall organizational structure. Explain relationships and outline responsibilities of:
 - . Commissioner's Office
 - . Land Bureau
 - . Division of Forestry
 - . Division of Minerals

B. TFL in DNR Management Units

- * Note: for each topic included in this section, the following information should be included:
 - a. Background: pertinent data
 - Percent of TFL in unit (by subactivity area where appropriate)
 - . Percent of total unit acreage in TFL
 - . Distribution of TF Lands (?)
 - b. Administrative and management directives
 - Enabling legislation
 - . Other pertinent state and federal legislation
 - Pertinent DNR policies, operational orders, commissioner's orders, or other guidance
 - c. Management
 - . Describe notable historical changes in management
 - . Describe current management
 - d. Relevant issues (and positive actions pertaining to resolution of issues)
- TFL in state forests (include discussion of BWCA and Voyageurs National Park)
- 2. TFL in wildlife management areas
- 3. TFL in state parks
- 4. TFL in other DNR management units (public accesses, trails, wild and scenic rivers, etc.)

Specific Resource Management Activities: Leasing and Timber Sale Note: use same outline format as in the preceding section (8.) 1 Minerals -- subsurface leases 2. Forestry -- timber sales 3. Lands -- lakeshore leases Lands -- other surface leases (specify types to be included) 5. Lands -- road and utility leases D. Financial Management TFL management vs. PSF management Composition of revenues (by source, administering discipline, 2. and/or location Distribution/investment process 3. 4. Compensation for use 5. Administrative costs Ε. Trust Land Sales and Exchange Note: Use outline similar to that used in B. and C., above Trust land sales 2. Trust land exchanges Current Activities Affecting TFL Management (Only those topics which are not covered fully in the previous section would be included in this section) Α. Land exchange guidelines Lakeshore leasing and lakeshore update В. С. Land suitability study Resumption of copper-nickel leasing D. Ε. Peat policy study MFRP F. G. Mineral potential evaluation LCMR project Н. Revenue task forces

RECEIVED

OCT 27 1982

Dept. of Natural R purces Div. of Parks & Repeation Natural Resources - Land Bureau

Robert L. Herbst, Commissioner Department of Natural Resources

July 31, 1975

100 The 3/00 The 3/00

R. D. Hultengren, Supervisor Land Sales and Lease Section

Trust Fund Lands within State Park Boundaries

As per your request, attached you will find listings of the state owned lands lying within state park boundaries.

There are 12,106.29 acres of land lying within 21 separate parks. The land section would be very happy to work with the Parks in an orderly program of acquisition of these Trust Fund Lands by the Parks Division.

RDH:1mb

Att

cc: Don Davison, Director of Parks Phillip J. OIFEH, Assistant Attorney GENERAL Gene Gere, Atten: Dick Smith

STATE PARKS ACREAGE OF TRUST FUND LAND

Bearhead Lake State Park		1,252.02
Caribou Falls State Wayside		40.00
Cross River Wayside		600.00
Father Hennepin State Park		6.50
George H. Crosby Manitou State Park		600.00
Glacial Lake State Park		35.25
Gooseberry Falls State Park .		40.00
Itasca State Park Becker County Clearwater County	122.09 1,473.02	1,595.11
Jay Cooke State Park		80.00
Judge C. R. Magney State Park		800.00
Lake Bemidji State Park		120.00
Little Elbow Lake State Park		40.00
McCarthy Beach State Park		414.25
Maplewood State Park		6.00 og. 10
Mille Lacs Kathio State Park		400.00
Nerstrand Woods State Park		460,60
St. Croix State Park		1,560.00 ag. 18
Savanna Portage State Park Aitkin County St. Louis County	2,806.98 242,52	3,049.50
Scenic State Park		835,61
Schoolcraft State Recreation Reserve		171.45
		12,106.29

Aitkin County									
Savanna F	ortage !	State P	ark						
1.	Lot 1	Judeo 1			Sec	1-50-22			40.08
	Lot 2				Sec.				40.28
		SW NW	NW	SW	N¹₂ SE				200.00
	Lot 2	on,		0,,	Sec.				41.85
2 2 1	Lot 3				occ.	11			42.55
	Lot 4					tt			43.25
		N' SW,	NE	SE		tr.			160.00
	Lot 1	112 011,	112	OL	Sec.	3-50-22			43.45
	Lot 2					, 11			43,15
	Lot 3					"1			42.85
4	Lot 4			•		tt			42.55
		SW NW,	NI	SF	11	11			200.00
	Lot 1	On 1111,	112	OL	Sec.	4-50-22			42.05
	Lot 2				Dec.	11			41.35
	Lot 3					11			40.65
	Lot 4					11			39.95
		CL NW	NI	Cu	NW SE	***			280.00
	Lot 1	0-2 1411,	11/2	SN,	Sec.				
	Lot 2				sec.	5-30-22 tt			39.62
	Lot 3					- 11			45.17
	Lot 4					**	3 3 7 7 6		21.50
		MI CE				11.			
	S ¹ ₂ NE, Lot 11	N2 SE			Coo	6-50-22	****		160.00
									17.20
**	E'z SE				Sec.	18-50-22			80.00
2.	A11				Sec.	36-51-22			640,00
				ž.					
3.	Lot 2			-	Sec.	12-50-23			7,80
	Lot 5					11			.08
		S1 NE.	E1/2	NW.	NW SE	tr			240.00
						24-50-23			160.00
							Total		2,806.98
			100					N 25 12.18	E 72.
Deales									
Becker Itasca St	ata Dami								
Itasca St	Lot 1				Sec.	6-142-3			41 40
	Lot 4				360.	11			41.40
						tt			40.50
	Lot 6	· .							40.19
							Total		12 2,09

Beltrami				
Lake Bem	idji State Park			
	N' NW, SW NW	Sec.	24-147-33	120.00
			Total	120.00
			Total	120.00
				THE RESERVE
Carlton				
Jay Cooke	e State Park			Mary Committee of the C
	NE SW, NW SE	Sec.	16- 48-16	80.00
		e c	m-4-1	
			Total	80.00
Cass				
	aft State Recreation Res	amre		
benooter	Lot 7	Sec.	2-143-25	52.25
	Lot 8	Sec.	2-143-25	39.90
	100	000.		
			Total	92.15
	are and a second second			
Clearwater				
Itasca St	ate Park		6 147 76	
	Lot 7	Sec.	6-143-36	37.02
	SE SW	Coo		40.00
	SW SE All	Sec.	8-143-36 16-143-36	40,00
	Lot 8		18-143-36	640.00
	NE NE		31-143-36	36.00
	A11	***	36-143-36	640.00
	ALL.	bec.		
			Total	1,473.02
			50 (4)	
Cook				
Cross Riv	ver Wayside			4
	N ₂ , SW ₄ , N ₂ SE, SW SE	Sec.	36- 59-5W	600.00
			Total	600,00
Judge C.	R. Magney State Park			
	SW SW	Sec.	3- 62-3E	40.00
	NE SE	Sec.	8- 62-3E	40.00
	SW NW	Sec.	9- 62-3E	40.00
	SE NW	Sec.	15- 62-3E	40.00
	A11	Sec.	16- 62-3E	640.00
A THE WAR		1	Total	800,00
		-	Total	800.00

Itasca				
Scenic St	ate Park			
	Lot 11	Sec.	5- 60-25	35.75
	Lot 12		, II	45,50
	Lot 5		11	47,25
	Lot 6			40.00
	Lot 7	Sec.	6- 60-25	33.75
	Lot 9			7.50
	Lot 6		"	. 23.75
	Lot 5		10	29.75
	Lot 12		et .	34.25
	Lot 11		11	31.00
	Lot 14		tt .	39.25
	Lot 15			34.00
	Lot 10		lt.	27.25
	Lot 1		tr	17.25
	Lot 8			34.25
	Lot 2			26.25
	Lot 3		11	. 36.36
	Lot 4		11	31.00
	W½ NW, SW SW	Sec.	32- 61-25	120.00
	Lot 3 .	11.73	tt .	35.58
	Lot 4		. 11	47.50
	Lot 7		tt .	15.50
	Lot 5		tt	13.50
	Lot 6		tt .	29.50
			Tot	al 835,61
Schoolcra	ft State Recrea	tion Area		
	Lot 5	Sec.	2-143-25	31,25
	Lot 6		. 11	19.75
	Lot 12		11	9,85
	Lot 9		tt	13,20
	Lot 4	Sec.	11-143-25	5,25
			Tot	al 79,30
Lake				
	Crosby Manitou	State Park		Mary Assessment
	SW NW, S12		16- 58-6W	360,00
	NE NW, NE SE		28- 58-6W	80,00
200	S ¹ 2 SE		32- 58-6W	80.00
No.	SE NW, NE SW		33- 58-6W	80.00
	acazenawa en arman canan			

Total

600,00

Caribou Falls State Wayside		
NW NE	Sec. 36- 58-6W	40.00
	Total	40,00
		40,00
Gooseberry Falls State Park		
NE NW	Sec. 22- 54-9	40.00
	Total	40.00
Mahnomen		
Little Elbow Lake State Park SW SE	Sec. 21-143-39	40.00
Diff Did		
	Total	40.00
Mille Lacs		
Father Hennepin State Park		
Part of Lot 1	Sec. 3- 42-25	6.50
	Total	6.50
Mille Lacs Kathio State Park		
NEI, NW SW, SIZ SW,		
NW SE, S ¹ ₂ SE	Sec. 16- 42-27	400,00
	Total	400.00
Ottertail		
Maplewood State Park		
Lot 2	Sec. 16-135-42	6.00
		. **********
	Total	6.00
	~	
Pine .		
St. Croix State Park		
A11	Sec. 16- 40-18	640.00
SE NW	Sec. 25- 41-18	40.00
All E½ NE, SE¼	Sec. 36- 41-18 Sec. 16- 40-19	240,00
D2 NE, 0E4		
	Total	1,560.00
Pope		
Glacial Lake State Park		
Lot 2	Sec. 24-124-39	35.25
	Total	35.25
	10001	30.23

Rice				
Nerstrand	d Woods State Park			
	Part SW NE	Sec.	9-110-19	10.00
	Part SE NE			5.00
	Part NE SW		11	23.00
	Part SE SW		***	10.00
	Part NE SE		"	20.00
	Part NW SE		n	19.00
	SW SE		- 11	40.00
	SE SE		"	40.00
	Part NE NE	Sec.	16-110-19	19.75
	Part NW NE		an and a second	19.78
8 2 2 3	SW NE		· · · ·	40.00-39.70
	Part SE NE		"	19.90 /9.8€
	Part NE NW		"	34.81
	Part NW NW		tt	27.45
	Part SW NW			14.92
	Part SE NW	2.0	. 11	19.87
	Part NE SW		tt	10.01
	Part NE SE		tt	-30-14-30.18
	Part NW SE		"	-26.97 37.00
	Part SW SE		"	19.98
	Part SE SE		nt .	10.02
			Total	460.00
St. Louis				
	Portage State Park			
Davania i	N'z NE, SW NE, NE SW	Sec	30- 51-21	160,00
	Lot 3	occ.	tt	40.77
	Lot 4		11	41.75
	Loc 4			
			Total	242,52
McCarthy	Beach State Park			
	Lot 4	Sec.	16- 60-21	41,50
	SW NW		11	40.00
A 10 101	Lot 3		n and a second	38,00
	NE SW		11	40.00
	Lot 4	Sec.	35- 60-21	21,25
	Lot 5		11	33,50
	E'z NE, NE SE, S'zSE		11	200.00
			Total	
			Total	414.25
Bearhead	Lake State Park			
	Lot 4	Sec.	6- 61-13	34.97
	Lot 4	Sec.	7- 61-13	30,50
	SE NE, NE SE, S12 SE	Sec.	3- 61-14	160.00

15 15			
Lot 6		Sec. 11- 61-14	31.75
Lot 3		, u	7.00
Lot 4			. ,50
Lot 3		Sec. 12- 61-14	39.00
Lot 1		u	58,25
Lot 2		TEST VIEW TO SELECT	30.25
Lot 4		n n	46.50
NI NE, SW N	E. SE NW		160,00
NW NW		Sec. 13- 61-14	40.00
Lot 6		Sec. 26- 62-14	6.00
Lot 9		Sec. 27- 62-14	2,25
NE_{4}^{1} , S_{2}^{1}		Sec. 36- 62-14	480,00
Lot 1		· ·	39,50
Lot 4			12.00
Lot 3		n	33,00
Lot 5		n	60
Lot 2		u · ·	39,95
		Total	1,252.02